

Católica Lisbon School of Business and Economics

Master of Science in Business Administration

The Role of Leases in the Merger of Lan and Tam

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Dissertation submitted in partial fulfillment of requirements for the degree of MSc in
Business Administration, at Universidade Católica Portuguesa, Lisbon 2013.

ABSTRACT

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Abstract

The objective of my dissertation is to understand the role of leasing in the merger of Lan and Tam. This merger was one of the events of the year in the industry, as it created the 3rd largest airline group by market capitalization, controlling 42% of the traffic in Latin America and 6% of the world. This case study tries to answer questions related with the merger and the influence of leasing on the decision-making process before and after the merger. Among the questions addressed by this paper are the impact of the on- and off-balance-sheet contracts on the decision to merge, the possibility of Latam being able to (re) negotiate past and future contracts with the objective of better conditions and whether this merger would be possible if the leasing policy were different. We conclude that the most appropriate leasing strategy for Latam Group is the use of Operating Leases in order to meet the objectives and shareholders expectations.

Resumo

O objectivo da minha dissertação é entender qual o papel dos *leasings* na fusão da Lan e da Tam. Esta fusão foi um dos maiores eventos na indústria da aviação, uma vez que foi criado o Terceiro maior grupo do mundo em termos de capitalização bolsista, responsável por 42% do tráfego da América Latina e 6% de todo o tráfego mundial. Este *case studie* tenta responder a questões relacionadas com a fusão e também da influencia dos *leasings* no processo de decisão anterior e posterior a mesma. Entre as perguntas abordadas neste trabalho, realçam-se, qual o impacto das operações dentro e fora de balanço, qual a capacidade futura da Latam para (re) negociar contractos passados e futuros com o objectivo de conseguir melhores condições e por fim se esta fusão seria possível se a política de *leasings* fosse diferente. Neste trabalho conclui-se que a melhor estratégia de leasing é o uso de *Operating Leases* de modo a atingir os objectivos propostos e as expectativas do acionistas.

Resumen

El objetivo de mi disertación es entender cual el papel de los *leasings* en la fusión de Lan y Tam. Esta fusión fue uno de los más grandes eventos de la industria de la aviación, una vez que fue creado el tercer más grande grupo de la industria del mundo en términos de capitalización bolsista, responsable por 42% del tráfico Latino Américo y 6% de todo el tráfico mundial. Este *case studie* intenta responder a cuestiones relacionadas con la fusión e también la influencia de los *leasings* en el proceso de decisión anterior y posterior a la misma. Entre las preguntas abordadas en este trabajo, se destacan cual el impacto de las operaciones dentro y fuera del estado financiero, cual la capacidad futura de Latam para (re) negociar los contractos pasados e futuros en orden a conseguir mejores condiciones y por fin si esta fusión sería posible si las políticas de leasing fuesen diferentes. En este trabajo se concluye que la mejor estrategia de leasing es el uso del *Operating Leases*, de modo a atingir los objetivos propuestos y las expectativas de los accionistas.

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Acknowledgements

I would like to thank my supervisor, Professor Ricardo Reis, who has always supported me during my dissertation. I am extremely lucky to have Professor Ricardo Reis as supervisor as he has always cared so much about my work and encouraged me to improve and go further. I am also grateful to him for introducing me to the topic and presenting me the company to work on. It is a pleasure for me to work in an area where I have a keen interest and where I would like to continue working.

I also want to thank Sergio Mendoza, the link to the Latam Airlines Group, as he has always been interested and available to advise me on the best way to work and has given me detailed explanations regarding all my doubts.

I must express my gratitude to my mentor in Católica Lisbon, João Pedro Oliveira e Costa, who has always advised me during my Master's and clarified all my doubts related with my professional future and choices.

Most of all I would like to thank family and friends who gave me confidence and encouraged me to complete my academic path to the best of my abilities, and to reach all my objectives.

1. Introduction

Some of the biggest Mergers & Acquisitions (M&A) operations of all time have happened in the recent past, making those operations almost an industry trend. Already large companies, some of them with huge financial problems, merged with other already large companies, to create a huge and competitive group operating in specific markets. Those companies that merged in the last few years were unable to handle the falling demand in the market, leading to a need to regain a competitive edge and face new challenges in the future. This merger phenomenon has happened mainly in the United States but also in Europe.¹

In 2010 Lan, a Chilean-based carrier, and Tam, a Brazilian airline company, announced their intention to merge the companies in order to achieve important cost reductions and to reach better efficiency patterns in the future. From the outset it was considered to be one of the most important mergers in the industry and one of the events of the decade for the business. The Latam Airlines Group will be the third largest airline group in the world by market capitalization, just behind Air China and Singapore Airlines. Latam will be responsible for 42% of Latin American traffic.

This operation is usually considered to be a merger, but actually it was an acquisition by Lan of Tam. Brazil has some of the most restrictive laws in the world for international companies obtaining licenses to operate in the country. So this merger was the perfect operation for Lan to enter the Brazilian market without violating any rule. However, it is important to stress that the merge of Lan and Tam was the cheapest way that Lan found to become a player in the Brazilian domestic market.

Leasing has become one of the most used alternative means of financing by airlines, as it gives them a certain flexibility to adapt their fleets to market demand. Leases also help

¹ See appendix 1 about some mergers in the airline market.

companies to preserve cash due to the high levels of investment that each company needs to operate in the market in the most competitive way.

There are two main types of leases: financial and operating. Financial leases are those that increase the debt side of the balance sheet, the asset is depreciated as an asset of the firm and the periodic payments under the contract are registered as a financial expense. On the other hand there are operating leases that basically are a rental. The lessee simply expenses the payment and the asset does not appear on the balance sheet.

Operating leasing is commonly used by companies to hide future obligations, meaning that the balance sheets of those companies are much cleaner than the others, but the obligations are present in the same way. These companies present much lower leverage ratios (D/E or Debt ratio), which usually leads to an increase in the share price.

In order to understand the impact of leases on the merger and what should be the future strategy of the Group, the accounts were modeled to answer those questions. Four different scenarios were created for the future, where a leasing strategy was taken in each one, taking into account historical strategies by each company. In these simulations the strategies considered were:

- Simulation I: The impact of both companies maintaining their levels of operating lease;
- Simulation II: The Group adopts Lan's strategy;
- Simulation III: The Group implements Tam's strategy;
- Simulation IV: The Group registers all leases as financial leases.

Another two simulations were made in order to test the interest of the companies in the merger if operating leases cannot be expensed. The objective of those two final simulations was to test if the companies would be interested in the merger with the existence of just financial leases.

This work contains a heavy part of technical/theoretical explanations due to the complexity of this merge. Airlines are companies with high value assets in their balance sheets, which make mergers between these companies overly complex. Nevertheless we hope that this extensive description on the technical aspects of the merger valuation projections do not reduce the relevance we attribute to the practical conclusions of this work, namely that the leasing conditions influence the value, the decision and the result to airlines merger.

2. Literature Review

Leases have become one of the most controversial subjects in financial debate. The main discussion in the area focuses on when leases are substitutes or complements to long-term debt. It is prudent to approach a related topic, the debt capacity of leases.

Companies started to use leases in the 1960s/1970s, because these were a means to finance investments with an operational approach. At that time there were two types of leases, operating leases and financial leases. The operating leases were not capitalized, but were just expensed. This means that this type of leasing does not appear in the company accounts, despite having an associated obligation. On the other hand, financial leases are capitalized. This means that the contract and the associated obligation are present in the accounts of the firm. In both cases, ownership of the asset lies with the lessor. The major difference between the two types of leasing is the allocation of risk. In operational leases, all the risks belong to the lessor, while in financial leases all the risks are transferred to the lessee.

The main discussion referred to in the first paragraph is led by academics defending the substitutability between leases and debt, while on the other side we have practitioners arguing in favor of the complementarity of each other. Practitioners, including company managers or leasing firms, say that leases “preserve capital”, which academics believe is a fallacy. Leasing *“conserves cash, provides “100% financing” or preserves credit lines”* (Eisfeldt and Rampini, 2009), according to practitioners, assuming ultimately that the debt capacity of leasing exceeds the debt capacity of lending.

Ang and Peterson (1984) indicated that leases complement debt, contradicting all the “prevailing theories in finance and economics” of the time. Assuming the complementarity of leases and debt, one may conclude then that the debt capacity of leasing is higher than debt. Eisfeldt and Rampini (2009) deduce exactly this option in their paper. They proved that due to

the ability to repossess the asset, the debt capacity of leasing is higher than the capacity of debt.

Academics, like Ross, Westerfield and Jaffe and Brealey, Myers and Allen have the opinion that one of the grey areas in leasing discussions is the fact that leasing preserves capital. For them companies will always have the simple option to borrow the full amount of the investment, which means they do not preserve capital by using leasing.

To summarize all the opinions and emphasize this issue's relevance for the topic, it is important to remember the main idea: practitioners believe that leasing is a complement to debt, while academics believe they are substitutes.

We cannot take part in this "battle" between academics (Substitutes) and practitioners (Complements), as the applicability of those concepts depends on the conditions (Size, Activity, etc) in each firm, market or industry. This means that academics and practitioners are both correct in their interpretations and research, because they proved their research applying their own assumptions.

A good example for understanding this debate between leasing as a complement or a substitute is this case study. Lan, more structured and mature, uses leases to complement its main investments, because with its stability it does not need to grow so fast and is capable of planning its needs more accurately. On the other hand, Tam is younger than Lan and has a bigger internal market. This carrier needs to invest and expand its operations, so it uses leases to meet its needs in a way that does not make the company struggle.

The means of financing referred to above that does not lead to companies struggling, or seeming to struggle, is precisely the "off-balance-sheet" financing provided by operating leases. This means that lessees will not need to capitalize the leases, which is an opportunity to avoid increasing debt to capital ratios. Considering the operating lease market, and as demonstrated by Franzen, Rodgers and Simin (2009), if we put all the operating leases on the

companies' balance sheet, the debt to capital ratios would generally increase by 50% to 75%. In another study by Wicker and Young (2011), the goal of IASB and FASB to eliminate off-balance-sheet operations "is expected to result in a significant increase in reported leverage for companies with large operating lease obligations". Capitalizing all the operating leases will increase debt ratios, but on the other hand, will provide clear and useful information about the real situation of each firm. This discussion naturally leads to the associated topic of transparency. For this topic, capitalization of all means of leasing will be an objective, as this will definitely increase the accuracy of analysis of the sectors where this means of financing is used more.

As stated in the Forbes article, "Debt Hazard Ahead", companies worked hard to make this system an encrypted way of financing, which allows their accounts to look in much better shape, without increasing liabilities and consequently debt ratios. For many companies, off-balance-sheet financing was a way to solve a lot of problems and made financing possible for financially constrained companies. Sectors that use rolling stock or high investment assets are the ones that use this type of financing the most (e.g. real estate, truck companies or airline carriers).

This case study will focus on one of the industries that uses leases the most, the airline industry. One of the reasons for the use of alternative means of financing is the sector's need to become more efficient, reaching fast growth and meeting the expectations of the market.

Eyer (1979) cited in his work that in the 1980s, the expected purchases of commercial aircraft would be worth \$42 billion by US commercial airlines and \$59 billion by foreign airlines. This gives a good idea of the potential of the aircraft market all over the world. As mentioned by the same author in concluding his paper, *"(...) the task will call for the maximum use of available sources of financing and for legal ingenuity in developing methods of securing such financing."* This conclusion again gives us the notion that already in 1979 the developing

challenges for the industry were immense and the use of leasing would be a real option for all companies, as the advantages of leases far outweigh the disadvantages. To Eyer the main reason to lease is the possibility of tax credits although he also says that the possibility to invest without passing debt limits is also useful (under an operating lease).

Since the 1980s, the airline industry started a huge growth process and their customers become more demanding (quality and efficiency). To meet the needs of customers, carriers needed to invest more. Leases were one of the options used by managers to cope with those heavy expansion processes. As stated by Gritta, Lippman and Chow (1994) between 1969 and 1991 the percentage of operating leases in total leases in the US increased from 13% to 82%. Taking those numbers into account, Oum, Zhang and Zhang (1999) concluded that the debt capacity of the firm is not increased by “off-balance-sheet” leases (operating leases). What they mean by this is that in off-balance-sheet financing, debt and leasing seem to be substitutes. This means that, nowadays, operating leases are not seen as financial as they were in the past, but much more operational.

With all this growth in the airline market, academics started to take an interest in the optimal capacity for leases, as some companies had almost become ‘lease addicted’. Oum, Zhang and Zhang (1999) studied precisely this issue, coming to the conclusion that the optimal demand for operating leases in a carrier would be between 40% and 60% of total fleet. However, a large proportion of carriers greatly exceed those numbers, turning airlines into financial time-bombs waiting to explode. The difficult situation was caused not only by the excessive use of leases but also by unstructured growth. Nevertheless, other factors influence the industry’s bad results, like 9/11 in the US, the conflicts in the Middle East or the wars in Iraq or Afghanistan.

One solution found by many academics and managers was Mergers and Acquisitions (M&A), involving the formation of big groups with the necessary growth and sustainability. As seen by

Merkert and Morrel (2012), *“(...) M&A/consolidation is seen as a “game-changer” and mandatory to survive in aviation markets.”* This means that M&A nowadays is necessary or almost necessary for many carriers to survive in the market. Without M&A's, many companies are unable to address their objectives and may become insolvent in the short-term. M&A will provide companies with ways to reduce costs through economies of scale, more visibility and power in the market to solve problems and negotiate contracts.

For Merkert and Morrel there are seven fundamental points that an M&A will affect after execution. The first is the main objective of all companies that merge, increased efficiency and cost reduction. The second is the increase in market share and revenues. This is a consequence that is expected to happen in an operation of this type. The third important point is the elimination of competition. Competition authorities tried to keep their attention on groups that may monopolize the market, but due to some financial problems and constraints they are the first to accept these deals sometimes to prevent the bankruptcy of companies. The fourth and the fifth may be taken together and are a consequence of the M&A: the power that the new group has to negotiate airport facilities or access aircraft. Point six is about the customer, and relates to the increased attractiveness for the customer that the new group will have (example: frequent flyer program, more destinations and ultimately lower prices). The last one is related to the risks and disadvantages that M&A can have for the firms. One of the main issues is the size that some groups can reach after the M&A, meaning that those groups do not work as well as planned.

Merkert and Morrel tried to prove empirically what a good size is for an airline carrier after an M&A. They noted that M&A's started in the US, then went to Europe and now are in Asia/Pacific and Latin America, where most of the airline groups are merging. In their paper the authors concluded that some groups formed by M&A became too large to be efficient and could not be as profitable as initially expected. The optimal size of an airline after an M&A in terms of scale efficiency should be *“(...) between 32 bn and 54 bn ASK and that any airline*

above 100 bn ASK and certainly above 200 bn ASK is too big to operate efficiently." This conclusion shows clearly how some groups formed by recent mergers are outsized. Groups like United Continental (with 384 bn ASKs) or Delta Northwest (334 bn ASK) may be too large to become as efficient as expected.

3. Leasing Companies

Airplanes are very expensive assets², holding a significant proportion of airlines' accounts. Leases were a way carriers found to be in the market, be competitive and adopt a clear financial image. It is currently thought that 40% of the world's commercial fleet is under some kind of lease.

Owning airplanes can present problems, both financial and operational. In financial terms, if carriers are the owners of a plane, they will see their balance sheets increase, creating a less favorable picture of the true situation of the company. In operational terms, owning an airplane can also present some problems. For example, if a carrier faces decreased demand, requiring a fleet reorganization, the fact of owning the airplane will not provide the flexibility needed. In these situations, leasing an aircraft allows contracts to be adjusted to your needs more easily.

Ireland is an important hub for leasing companies, due to their favorable corporate tax system and treaties allowing leasing companies to be competitive. Leasing firms employ more than 1,000 people in Ireland, total assets managed by those firms amount to \$82.5 billion and 50% of all leased aircraft are managed from this European country. Ireland has become one of the most important places for aircraft companies. With so many advantages in operating from Ireland, it is no surprise that 9 of the 10 largest aircraft leasing companies are based in Dublin.

GE Capital Aviation Services (GECAS) and I.L.F.C. are the biggest leasing companies in the world and the biggest players in the industry, as each one owns more airplanes than American Airlines or Air France, Lufthansa and British Airways together. At this time, GECAS owns more than 1,500 airplanes and I.L.F.C. has more than 1,000. Air Lease Corp. is another player in leasing industry, founded by the former CEO and co-founder of I.L.F.C., Steven F.

² For examples on aircraft prices see appendix 2

Udvar-Házy, considered to be one of the most important and influential managers of the industry. However, as a recent company it has a fleet of just 102 airplanes. Other companies that play in the same market are Avolon (fleet: 162 planes), MC Aviation Partners (part of Mitsubishi Group and with a fleet of 100 planes) and Awas (fleet: 240 planes).

I.L.F.C. was bought in December 2012 by a Chinese fund. This fund paid \$4.8 billion for the company previously owned by AIG (American International Group, Inc.). The incentive for Chinese companies to enter this new business is the objective of reaching the extraordinary Chinese market that is under development. The effect of the development of Asia on leasing companies is a big expectation for the near future, since it is one of the markets with the most opportunities to be explored.

Mergers & Acquisitions in industry are not specific for carriers. The leasing market for airplanes is also facing some changes and the crisis of 2008 led to some new companies appearing in the market. Those new players were basically financed by new equity that, due to the turmoil in the financial markets, was transferred to businesses that are theoretically less risky and with extraordinary perspectives for the future.

4. Historical Analysis

Lan and Tam had, until now, a similar history.³ Families controlled both companies, the Cuetos in Lan and the Amaros in Tam. Now, both of them are stakeholders in the Latam Group. Lan and Tam were created with the purpose of providing their respective countries with domestic transport of mail and people.

In 2010, Lan and Tam signed a Memorandum of Understanding (MoU) stating their intention to merge and to form one of the biggest airline groups in the world. After submission to the competition authorities from each country, the merger was approved in 2011. At the end of 2011, before the merger, the Cueto family controlled 34% of Lan's total capital and the Amaro family controlled 46.6% of Tam's capital.

Lan and Tam have huge growth expectations, making this merger risky for some experts. Their main question is whether Latam will be able to manage the entire company adequately for the efficiency needed and targeting the objectives initially proposed.

In relation to leasing, Lan and Tam have a very different approach. Lan clearly uses operating leases to complement their investments, owning the majority of the airplanes. On the other hand, as recognized by Tam in their Annual Report, *"Tam linhas aéreas currently leases all of its aircraft using long-term lease agreements. We believe that leasing, rather than owning, aircraft gives us greater flexibility because it allows us to change the composition of our fleet relatively quickly in the event that we need to do so."* This means that Tam has an entirely leased fleet, mainly using operating leases. At the end of 2011 Lan had a total fleet of 149 planes, of which 49 were under operating leases, 11 under financial leases and 89 were owned. The fleet of Tam was composed of 161 planes of which 147 were under operating leases, nine under financial leases and five were owned.

³ See appendix 3 for a detailed Lan and Tam history

It is important to look deeper into Lan's leasing strategy. The company has achieved huge credibility in the market in the last few years through its good performance and financial situation. Banks and leasing companies saw Lan as an important player in the region with a strong basis for success. This confidence was one of Lan's most important assets as it was the key for Lan's safe passage through two or three crises in the region without having significant weight in the company accounts. The Chilean carrier was able to (re) negotiate some contracts using its capital in financial institutions. In those cases the Group was able, for example, to change the delivery of big airplanes for small ones or even delay the reception of those assets to handle lower demand than expected. According to the company this was a crucial factor for maintaining stability and confidence in the Lan Group.

This ability to renegotiate some of the contracts and conditions allowed the company to avoid some of the usual problems in the airline industry surrounding airplane ordering. In this industry, the orders are made at the top of the economic cycle, meaning that if an airplane takes three or four years to deliver, the airplane is ready to be delivered when the company may not have demand for it, as the industry and the market are in the lowest part of the cycle.

Concerning Lan's revenues, in the last 10 years the company registered an average of almost 15% growth per year. This is a clear sign of the sustained development that Lan had in the past. The main stake of Lan's revenues is sustained by international activity, i.e. regional (Argentina, Peru, Colombia) and international flights (Europe, United States and Oceania).

Lan's international activity accounts for 75% of the firm's total revenues.

MUS\$	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Load Factor	68.9%	66.7%	65.3%	69.2%	71.5%	73.8%	73.8%	76.1%	76.6%	76.9%	78.3%	79.8%
Yield (Cents/USD)	7.6	7.1	7.2	7.2	7.7	8.4	9.3	9.2	10.6	8.8	9.4	10.4
RASK (Cents/USD)	5.2	4.8	4.7	5.0	5.5	6.2	6.9	7.0	8.1	6.8	7.3	8.3

Table 1 - LAN RASK

Looking at the RASKs we can see that Lan's revenues per available seat almost doubled in ten years, reaching \$ 8.3 cents per available seat kilometer in 2011. This increase was

related to the increased efficiency in the usage of the company's available seats as well as an increased yield, which reflects an increase of tariffs on tickets sold.

In terms of costs, it is important to note that Lan's operating costs grew in a similar way to its revenues but on average at a lower rate. This was responsible for an average EBIT increase of 26% over the last 10 years, which is a good rate for a company with Lan's ambitions.

MUS\$	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EBIT	75.28	50.25	62.06	111.72	172.10	141.64	299.30	410.38	533.17	453.88	628.29	506.65

Table 2 - LAN EBIT

Lan has a management policy of compensating increases in the price of fuel by increasing the most expensive tariffs. With this policy, the company slightly reduces the impact of the increase in fuel prices on the accounts. In the case of Lan, the increase in fuel prices will directly influence the yield factor for the year. It is also important to note that Lan's business model is designed to be efficient and profitable with load factors around 80%.

In relation to Tam, the company's revenues also grew at a good rate, reaching an impressive \$6.6 billion in 2011. In this case, a major part of the revenues are from the domestic market where Tam has enormous potential to explore. The domestic Brazilian market has immense potential to grow and was one of the reasons that made Lan interested in the biggest Brazilian airline. Looking at RASKs, we see that Tam had revenue per seat available of \$ 7.6 Cents in 2011. This value has consistently grown year-on-year with 2009 the year with the lowest passenger revenue per seat at \$ 6.4 Cents. Historically Tam had high yield meaning that the revenue per ticket sold was generally high. The increase in the load factor has been significant since 2002, registering 73.5% in 2011.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Load Factor	54.8%	60.6%	66.0%	70.6%	74.2%	70.4%	71.0%	68.2%	71.9%	73.5%
Yield (Cents/USD)	9.1	10.0	10.4	10.9	11.7	10.7	12.3	9.4	10.1	10.4
RASK (Cents/USD)	5.0	6.1	6.9	7.7	8.7	7.5	8.7	6.4	7.3	7.6

Table 3 - Tam RASK

Tam's costs did not achieve such stable growth in the last ten years as we can see in the company's EBIT performance, where certain years achieved negative operating income. However, the last few years saw better operational results and a stable situation for the firm.

MUS\$	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
EBIT	145.63	52.22	-86.96	-13.59	95.96	163.47	400.29	112.11	310.27	106.42	555.78	585.39

Table 4 - TAM EBIT

Comparing those RASK values with Lan, we conclude that Tam was as efficient as Lan in the past in relation to revenue per available seat. However, the trend was different for each company. Lan achieved efficiency increases, bringing a RASK of \$ 8.3 Cents in 2011, while Tam registered a RASK of \$ 7.6 Cents. This leads us to conclude that Tam's capacity in the last years was oversized for its demand. Taking into account the load factor and yield we may conclude that historically Tam registered higher yields than Lan, but the Chilean carrier registered better load factors especially in the last few years.

Meanwhile, in order to get a more solid idea about the management of the last 10 years in both companies, we should compare their EBIT margins. In the case of Lan we find an average for the last 10 years of 9.23%, which means that Lan has managed efficiently and has controlled its costs properly. In the case of Tam the average EBIT margin was 4.57%, which is a lower value than Lan but is also a very positive number. Both companies managed their costs well although Lan had double the margin of Tam over the last 10 years. It is important to emphasize that the higher value for Lan is a consequence of more control on the cost side as well as the usage of more financial leases since the weight of operating leases in EBIT is higher.

Post-operating expenses make the biggest difference between the accounts of the carriers. Lan has much lower interest payments and foreign exchange variations, leading to a more stable and positive Net income. Tam on the other hand, registered much higher interest payments, due to its bigger debt. Tam had a Debt ratio of 82% in 2000 growing to 87% in

2011. This ratio in Tam had years at around 90%. In Lan those ratios had a stable path, in growth since 2000 and lower than Tam. In 2000 the Debt ratio of Lan was 75% leveling to 80% in 2011.

Concerning Foreign Exchange Losses/(Gains), this was the item that made a greater difference between the two companies. In Lan those values can be considered negligible in all years as they never defined the result of the company. On the other hand, Tam had incredibly high Foreign Exchange Losses and Gains in past years. It is simple to see that when Tam had negative Net income this was influenced by the variation in this item, since the company had a positive result after interest payments. The same happens when Tam had positive Net Income. As we can see in the table below, 2008 was the year when Tam had the most negative result ever. The company lost almost \$800 million and the biggest part of this loss was in Foreign Exchange variation. On the other hand, in the year 2009 exactly the opposite happened. Tam had one of the best results, registering a gain in Foreign Exchange of more than \$800 million. This is a clear sign that Tam's hedging vehicles failed. This caused high volatility in the accounts that influence operating income.

In the future it is expected that with the merger of the companies, Tam will have more stable variation in Foreign Exchange due to having better hedging instruments.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Interest	31.67	36.75	42.56	39.35	36.52	39.19	60.74	76.22	82.69	118.23	123.29	109.71
Forex L/(G)	-5.67	3.89	4.84	-12.06	-2.36	-6.00	-5.54	-15.70	7.87	11.24	-13.79	0.26
Net Income	48.91	13.55	33.38	87.25	166.51	144.85	240.06	308.03	336.93	233.03	420.93	320.57
Interest	63.13	49.85	47.02	56.65	19.64	36.97	137.66	118.88	297.41	232.86	270.51	288.71
Forex L/(G)	73.21	85.14	228.27	-138.61	-2.38	-10.33	-5.03	45.46	698.36	-872.95	-138.31	539.78
Net Income	-0.30	-24.26	-214.22	57.01	117.06	77.18	256.15	66.51	-795.88	633.06	380.53	-126.70

Table 5 – Interest Expense, Foreign Exchange Losses/(Gains) and Net Income

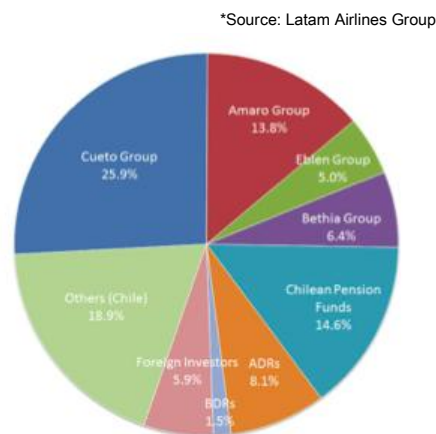
Both companies already adopted IFRS as their reporting standard. Lan adopted IFRS in 2009 while Tam has used it since 2008. When Tam adopted IFRS standards it had to increase its assets by \$4,000 million, as its assets did not fit in the standard rules.

5. Latam Airlines Group

With the merger of Lan and Tam, one of the biggest airline groups in the world was created, responsible for 42% of Latin American and, according to Euronews article “LAN + Tam = LATAM”, 6% of total world traffic.

The merger was performed through a swap of Tam shares. Shareholders of Tam exchanged their shares for Latam Airlines Group Shares at 0.9 to 1, meaning that the Tam shareholders get 0.9 Latam shares for 1 share of Tam. Latam shares were the previous Lan shares, with Lan shareholders maintaining their shares.

After the merger of Lan and Tam the shareholder structure of Latam became predominantly controlled by Chilean companies such as Eblen or Bethia and by Chilean Pension Funds.



Graph 1 - Latam Airline Group Shareholders Structure

The new group has become an important player in Latin America, based in six Latin American countries and also in the US, where they have an important structure for their cargo activity. Tam Cargo was incorporated into the cargo business unit of Latam, with no distinctions between Tam Cargo and Lan Cargo.

Concerning organization, the Group is being managed mainly by the Chilean team. The Group is organized into business units with operations segmented by type of activity. The chairman of Latam Airlines Group is the Brazilian Mauricio Rolim Amaro and Enrique Cueto

heads the management team. The CEO of Lan is Ignacio Cueto and the CEO of Tam is Marco Bolonha. The Group is divided into eight business units where we have:

- One international unit, that is divided into regional and long-haul;
- Six domestic units. These units have operations related to Brazil (Tam), Chile (LAN Chile), Argentina (LAN Argentina), Colombia (LAN Colombia), Ecuador (Lan Ecuador) and Peru (Lan Peru);
- One cargo unit, where the Tam cargo division was incorporated into the Latam cargo unit.

This organization is similar to Lan's before the merger, as the successful management by the ex-Lan team will be helpful in controlling the costs of the Brazilian carrier and making the group competitive in the future.

Challenges For The Future

Latam Airlines Group may face some challenges in the future. One of the bigger challenges is the credit risk that the Group will face. Banks have already downgraded the company risk note and are watching whether the company will be able to achieve the desired synergies that were the main argument behind the merger.

Another important issue is the lack of infrastructure in Chile and Brazil. Chile has plans in aeronautical infrastructure worth around \$14 billion with the objective of improving and giving capacity to the country in order to become an important player in the region. Brazil on the other hand is already improving some infrastructure as the country will host the FIFA World Cup in 2014 and the Rio de Janeiro Olympic Games in 2016. Furthermore, the Brazilian government intends to construct almost 800 airports in the country. In Brazil this improvement is very necessary.

Another challenge for the Latam Group is future growth and new potential markets in the future. After the stabilization of this merger, the Group is expected to grow in new markets, like Asia, Europe or even Africa. In my opinion Latam Airlines Group would be an excellent buyer for the Portuguese carrier, TAP Portugal. With this Portuguese company in the Group, they would be able to compete with Iberia in air transport to Latin America, making Lisbon an important hub in Europe. Being competitive in air transport to Europe and being the market leader in Latin America, Latam would have even more importance in the airline industry.

6. Data

In order to simulate the impact of leasing on the merger of Lan and Tam, all the financial information used was taken from Bloomberg and complemented with the available information in annual reports, from the last ten years for Lan and six years for Tam. Data from Bloomberg was used as all the accounts are standardized assisting the analysis and making all the accounts analogous.

In relation to the quality of the reporting of each company, Lan has much more quality in the available reports than Tam. Another important aspect is the range of Annual Reports available, since Lan has eleven years available while Tam has just seven years. Another issue is the currency that the companies present their statements in. Lan presented all its accounts in US dollars while Tam presented accounts only in Brazilian real. This factor was another major reason to take standardized accounts from Bloomberg.

7. Forecasts

In order to simulate Lan and Tam accounts forecasts were made for the future based on numerous assumptions, all using future expectations of the companies and the market. Some industry players like IATA, Airbus or Boeing made some of those market forecasts. The estimate of all Lan and Tam accounts (Latam Airlines group) was made initially assuming that both companies will merge in 2012, and each will maintain its leasing strategy. The accounts were modeled independently from each other, being consolidated in each simulation. Economies of scale were considered in the forecast as explained ahead. In each simulation the accounts were consolidated according to each purpose and the necessary adjustments will be taken into consideration.

Fleet Forecast The fleet was forecast based on the expected fleet growth rate used by Airbus, of 5.1% a year until 2021. This goes in line with Latam's expectations, as the projected fleet for 2014 is 359 airplanes.

	2012F	2013F	2014F	2015F	2016F	2017F
Lan Fleet	157	165	173	182	191	201
Tam Fleet	169	177	186	195	205	215
Latam Fleet	326	342	359	377	396	416

Table 6 - Forecasted Fleet

Capacity Measures The first items forecast related to capacity of each carrier according to market expectations. In these items were included the total amount of passengers carried, ASKs, RPKs, ATKs, and RTKs.⁴

Latin America is one of the most resilient markets in the world and the crisis of the last years was not felt as much as in other markets, like Europe. This does not mean that the main Latam market is perfect and immune to the crisis, but it is a good sign to work in markets where the expectations in the short and long term are some of the best in the world.

Brazil's economy is expected to underperform the expectations of analysts, but as stated by Ignacio Cueto, Chairman of Lan, in a Bloomberg interview; *"Brazil still has a strong economy, will have a World Cup in two years and is growing"* and added, *"Maybe not at 5 percent, but definitely at 2 or 3 percent."* Brazil has a well-developed primary sector and better growth rates than any other South American country in the past.

Chile on the other hand is expected to maintain its market-oriented economy, strong and capable of growth in the next few years. Chile is one of the countries in Latin America with the best reputation for strong institutions, earning it the best sovereign rating in the region.

	2012	2013	2014	2015	2016	2017
Chile GDP Growth	4.96%	4.45%	4.60%	4.60%	4.60%	4.60%
Brazil GDP Growth	1.47%	3.95%	4.20%	4.20%	4.11%	4.14%
Latin America GDP Growth	3.17%	3.89%	4.05%	4.01%	3.98%	3.97%

Table 7 - GDP Growth Rates

⁴ See Glossary for detailed definitions

Some players dismissed the Latin American market as forecast growth rates for traffic were much lower than the effective traffic registered for the same periods. Both markets under analysis in this research may be seen as being special because they are unique in the region. The Chilean market is limited in terms of domestic activity, but is probably one of the most mature markets in Latin America. On the other hand the Brazilian market is the biggest internal market in Latin America and is seeking expertise to ensure structured growth of the firm's activities. In all Lan's activity, the company's international business brings in almost 75% of the revenues.

For Lan the expected growth in passengers was considered to be 2% in the first two years (2012 and 2013) and then is expected to grow at a rate of 5% per year. In relation to Tam the two events (FIFA Football World Cup in 2014 and the Olympic Games in Rio de Janeiro in 2016) that will occur in the country were taken into consideration and are expected to have a big impact on Tam's activity. So, for the Brazilian carrier, passengers carried by the company are expected to grow at a rate of 2% in 2012 and 2013 and then 6% a year in 2014 and 2016. In 2015 and 2017 it is expected to grow 3%.

ASK was forecast according to the 5% growth expected by the Latam Airlines Group. The Group expects a decrease of 2% in Tam's ASKs in 2012 and then expects overall ASKs growth for the Group, of between 4% and 6%. For this purpose 4% was taken as the growth rate per year from 2013 on, such that the Group achieves some of the desired efficiency gains. This means that if the demand measure (RPK) grows at a higher rate than supply (ASK) this will lead to better efficiency from each company, which is the major objective behind the merger.

In terms of cargo activity, since Lan is the company in the Group with the greatest activity in the sector (cargo accounts for 28% of Lan revenues, but 11% for Tam), the ATKs and the RTK were forecast only for the Chilean carrier. Lan Cargo is active in the Latin American

market making an important bridge to the US and is expected to grow at a stable rate for the future. Total tons carried by Lan is expected to grow at an average of 4% a year. In this period Lan will achieve one of the major goals in the cargo business: to increase efficiency, as it will increase the cargo load factor to 75% in 2017 in comparison with 69% registered in 2011.

The RPK forecast, was calculated from the ASK forecast and from the Group's expectation of the load factors of both companies. In the case of Lan the expected load factor is around 80% and for Tam 75%.

Revenue Forecast The revenues of both companies are expected to grow for the future, especially after 2013. In 2012 Tam revenues are expected to decrease a little - around 1%. For Lan stable growth around 4% is expected in 2012, reaching around 5% a year between 2014 and 2017. The revenues of the Chilean airline are expected to reach more than \$7 billion in 2017, growing almost \$2 billion in five years.

Passenger revenues were calculated using the growth of RASK. Latam Airlines Group has expectations for Lan, due to the business model of the Chilean carrier, based on a load factor of around 80%. The yield will also be stable. As already explained, when Lan encounters increases in the price of fuel, it tries to reduce the impact of those increases by increasing higher tariffs. Despite being an item with high fluctuation and uncertainty, it has been assumed to be stable in future years.

In the case of Tam, the load factor is expected to increase slightly in the future, with significant increases in 2014 and 2016 when Brazil hosts the FIFA World Cup and the Olympics. In terms of yield, it will be the same as Lan targeting a value of 10.4% per year. Tam is expected to assume Lan's strategy in relation to the business model, meaning that the load factor in the long term should increase to around 80% and fuel expenses will have an

impact on higher tariffs. After forecasting the RASK for each year and having already forecast the ASK, we have the passenger revenues for each company.

For Lan Cargo, the method for estimating future years was the same as for passengers, using the expectations of the Group of a 5% increase in the load factor for the future. The yield is expected to remain constant.

Tam's cargo business will be responsible only for the domestic market in Brazil and Lan Cargo will assume all the international activity of the Group. Tam's cargo revenues thus will grow according to total revenues, equating to 8.8% of it for all the years forecast.

Other revenues includes duty-free, logistics and tours, and is expected to grow at the rate of inflation in each country.

Costs Forecast The cost of revenues was forecast to remain a stable percentage of passenger and cargo revenues, using the worst value of the last five years. In the case of Lan was 73% used and for Tam 83.9%. The most relevant items in Cost of Revenues (Operating Leases and Fuel Expenses) were also forecast for each year. Operating leases were calculated taking into account the expected composition of the fleet and the amount of airplanes under operational lease. Fuel expenses were forecast taking into account the historical liters consumed and the cost per liter. The forecast of liters consumed was based on the total number of airplanes and consumption per plane. Consumption per airplane is expected to drop in the future due to the new airplanes that the Group will acquire which are much more environmentally friendly (such as the Boeing 787 Dreamliner).

Other Operating Expenses, which includes depreciation, will grow at the inflation rate for Chile and Brazil, respectively. Depreciation was forecast based on the value of total assets for each

year. The depreciation rate used was the average depreciation rate for each company over the last five years.

Interest expense was calculated based on the average interest rate for the last five years, considering the interest expense of the year and the total borrowing (short-term and long-term) for each firm. Tax expense was calculated based on the average tax rate of each firm for the last five years.

Dividends Forecast The distribution of dividends is an important issue in the merger of Lan and Tam. In Chile there is a governmental law stating that distribution of dividends is mandatory at a minimum rate of 30%. So, for the forecasts, this rate was considered independently of the dividend payout ratios of each firm in the past years. This may have an impact in the future as the average of the dividend payout ratio of the last six years was 54% for Lan and 7.7% for Tam. However, to be conservative, 30% was taken as the future rate.

Balance Sheet Forecast The Cash and Cash Equivalents item was considered to be 4% of total revenues every year. This is because the company can borrow or lend in the short term to address insufficient or excess cash. Short-term borrowing was considered for every year to be 1/5 of the previous year's long-term borrowing plus the cash needed for the year. On the other hand, long-term borrowing was forecast according to the expected fleet expectancy. In this particular case Lan's expected long-term borrowing will be higher than that of Tam, as Lan's strategy involves more airplanes on the Balance Sheet, leading to higher debt.

Accounts Receivable and Accounts Payable grow as a percentage of revenues and expenses respectively.

The item Other Long-Term Assets is growing at a stable rate of 11% which is the average growth of the past three years. Concerning Other Short-Term Assets, it is assumed that 1/5 of the previous year's Other Long-Term Assets will become short-term. Considering that the proportion transitioning from long to short term is 32% of total Other Short-Term Assets, it was straightforward to predict the total value of the item. Other long-term/short-term liabilities will be forecast in the same way as other short-term/long-term assets.

The Net Fixed Assets item was forecast based on the expected growth of the fleet. For this, the historical values of each airplane in the balance sheet were calculated for each year. The value used for 2012 was the value of each airplane in 2011 plus slight growth reflecting the addition of new and more expensive airplanes and the devaluation of older ones. After deriving this value and knowing that historically aircraft account for more than 70% in total Net Fixed Assets, the total value of this item could be calculated. The depreciation for each year was predicted using the expected values for Net Fixed Assets and the average of the last five years' depreciation, for inclusion in Other Operating Expenses in the Income Statement.

Long-Term Borrowing was calculated in a similar way to Net Fixed Assets, as each airplane in the item was calculated. This was used to forecast the future values basing this again on the expected fleet number for each year. For this forecast only the airplanes accounted as financial leases/owned were included.

Retained Earnings were considered to be the previous year's value plus the Net Income for the year less the dividends forecast for each year.

Simulations

For each simulation, the adjustments were made that are involved in each strategy. This means that for all the simulations the values were reconsidered for: the composition of the fleet, Depreciation, Net Fixed Assets, Long-Term Borrowing, Short-Term Borrowing, Interest,

Tax Expenses and Cost of Revenues. All other items of the Balance Sheet and Income Statement were considered as initially forecast for both companies.

In all the simulations the Goodwill of the operation was also taken into account, at \$2,056.37 million. Also related to the merger operation, each consolidation included the new share capital for the Latam Group at \$1,435.34 million.

For dividend payments, the minimum rate required by the Chilean law, 30%, was considered for all the years. The payment of dividends is only mandatory in Chile, although it was assumed that this will be applicable in all the years for the whole group.

Simulation I The main objective of this simulation is to understand what happens to the new Latam Airlines Group if both companies continue with the same leasing strategy. This means that in this case Lan will continue with 33.3% of airplanes off-balance-sheet while Tam will maintain a ratio of 46.5%. Those percentages do not mean that Tam will have just 46.5% of operating leases, but that despite the number of airplanes under operating leases, just 46.5% of them will be accounted for as operating. In this case, it was only necessary to consolidate the results forecast in the base case, paying attention to the Goodwill.

Simulation II In this case we tried to test what happens if the Group adopts Lan's strategy. This means that the entire group will have 33.3% of planes off-balance-sheet. Here it is assumed that the change of strategy took place in 2012, involving relevant contract changes in just one year.

Simulation III The third simulation is similar to the third, since it is the opposite strategy. We tried to understand the impact on the Group's accounts if they adopt Tam's strategy. This means maintaining 46.5% of airplanes off-balance-sheet. Again it was assumed that the change in strategy takes place in 2012.

Simulation IV In this case, was tested the accounts for the possibility of the termination of expensing leases (operating leases). This is in line with some intentions of IASB and FASB to eliminate the possibility of operating leases having only the hypostasis of capital leases. In this case Latam will have no airplanes off-balance-sheet.

Simulation V & Simulation VI In this case the intention was to understand if companies would be interested in the merger if only financial leases existed. For the last 11 years for Lan and seven years for Tam, historical accounts were manipulated to understand what effect having all the planes on-balance-sheet would have on the decision-making process. The question that we try to answer is whether the companies would have an interest in merging if this situation happens.

8. Scenario Analysis

As we will see in this section, leases can generate different financial results for the Latam Group. Depending on the strategy chosen, net income or the debt ratios will change.

Airlines are by definition companies with very high debt ratios due to the high value of their assets. Carriers usually need to acquire those expensive assets with debt. However, pure long-term borrowing can lack flexibility, which those types of companies urgently need.

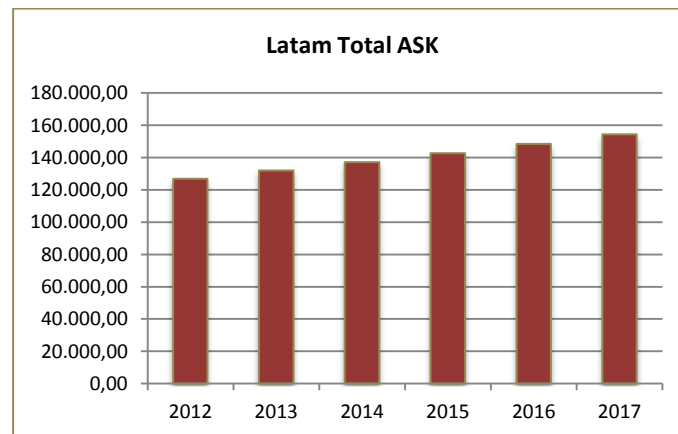
Leases are one of the hot topics in finance, particularly since the Enron case. The possibility of off-balance-sheet financing came under discussion with this case and some of the most important institutions in accounting, such as the IASB and FASB, are trying to converge their standards to eliminate or reduce this possibility. However, one of the main types of off-balance-sheet financing is leasing.

Before analyzing the simulations, it is important to analyze some variables that are common to all the scenarios - the capacity measures (ASK, RPK, ATK and RTK). Some of the improvements in efficiency come from a better usage of the existing capacity. The Latam Group is expected to increase passengers and cargo load factors, thereby achieving the efficiency improvements expected.

Lan has been very efficient in the past, and is expected to maintain passenger load factors at around 80%, which is the target for the Lan business model. In the case of Tam, the passenger load factor is expected to increase to 75%. In the cargo business the Group will be able to improve the load factor of Lan Cargo by 5%. This was another objective of the merger, since in past years the company registered ratios that were considered not to be acceptable by the management.

In terms of capacity, the group seems to stand in the higher interval (as defined by Merkert and Morrel) to be a group efficiently managed. As we see in the graph 2, Latam will be above

the 32-53 bn ASK and also the 100 bn, but below the 200 bn. Compared with the extremely large groups in US we can forecast that the case of Latam is expected to become a controlled case, since it has almost half of the capacity of groups like United Continental and Delta Northwest, and is in the higher acceptable interval for Merkert and Morrel.



Graph 2 – Forecasted ASK for Total Latam Airlines Group

Simulation I, II, III & IV

As an initial point of analysis and just focusing on the concept and accounting of leases, we may conclude that debt ratios for Simulation III and V will be higher than the others. The assets of those two simulations will be higher and the financial expenses will definitely be higher. These expectations are just an interpretation of the standards that state how to account for leases.

In each simulation we will have different weights of operating leases in the total fleet of the group. Considering the optimal capacity for leases stated by Oum, Zhang and Zhang (1999), we are able to get interesting conclusions. Applying these to the present study, only simulations I and III are in the optimal interval of optimal operating leases. Simulation II (33.3%) is not above 40% but sufficiently close to it to open good perspectives for the future. Simulation IV is as expected out of the optimal interval since it does not register any Operating lease.

As we can see in the table below, the Debt-to-Equity (D/E) ratio is very different from simulation to simulation, although our expectations about the weight of the debt in the accounts are proven correct. The ratios below are really high ratios for any company, in any market, although for airline companies, where the value of each asset (airplanes) is very high, the industry D/E ratio is around 300% or 400%. So the Latam Group in some cases will reach these values in the future; in others it will pass them. This situation of high levels of debt should be one of the causes for the Group to have more control since it was debt that made some recent mergers, especially in the U.S., unsuccessful. Those giant groups with high levels of debt were unable to be operationally efficient, and to generate value to make high interest payments.

	2012F	2013F	2014F	2015F	2016F	2017F
Simulation I	349.37%	360.87%	348.93%	363.21%	346.70%	351.04%
Simulation II	418.29%	418.85%	410.17%	407.68%	406.38%	404.12%
Simulation III	318.38%	282.29%	252.23%	229.94%	212.26%	198.21%
Simulation IV	680.70%	678.17%	673.44%	673.94%	676.00%	678.76%

Table 8 - D/E Ratios per Simulation

The D/E ratios seen above mean in terms of debt ratio, an equivalent value for the next years of around 84% for simulation I, 85% and 86% for simulation II, 76% and 83% for simulation III and 89% for the simulation IV.

Both ratios register a similar path in future years. D/E and Debt Ratio rise in 2012 and then the Group will be able to reduce those ratios. The company will reduce the D/E more in Simulation II and III showing in these two cases clear sign to the market that they are able to meet their obligations and reduce their D/E ratio in a quick way. In the fourth simulation we are considering values of Debt ratios that are completely outside any mean or expectations, although the company in this situation is able to recover in 2/3 years and start generating enough cash to meet their obligations through operating activity. The capacity to meet their financial expenses with operating income is measured by the interest coverage ratio. Latam will have a ratio above 100% in most of the years and simulations. Reaching ratios above

100% means that they are able to generate sufficient profit to cover their interest expenses. Is interesting to see that in all the simulations Latam will be able to have an interest coverage ratio above 100%.

Concerning operating margins, we can see that the simulations where financial leases prevail have a higher EBITDA Margin than the simulations where the Group has operating leasing or owns the airplanes. This is a consequence of the accounting in each situation since the operating lease has to be expensed as an operating expense and the financial lease is considered a financial expense. As we see below, the simulations with a higher weight of operational lease have higher operational expenses before depreciation, causing lower EBITDA Margins each year.

	2012F	2013F	2014F	2015F	2016F	2017F
Simulation I	14.31%	14.84%	15.56%	13.99%	15.93%	15.56%
Simulation II	14.34%	15.16%	15.36%	15.50%	15.72%	15.94%
Simulation III	13.62%	14.09%	14.17%	14.22%	14.32%	14.44%
Simulation IV	15.97%	17.67%	17.86%	18.04%	18.28%	18.53%

Table 9 - EBITDA Margin

Looking at EBIT (with depreciation included) we see that the operating result will decrease and consequently the margin will be reduced. Interestingly in simulations II, III and IV the margins that we get for each simulation are basically equal, meaning that the choice between each leasing strategy is almost indifferent for shareholders. In the case of simulation I, the margin variation is quite different but for this analysis it can be assumed to equal all other simulations.

	2012F	2013F	2014F	2015F	2016F	2017F
Simulation I	11.07%	10.49%	11.18%	9.58%	11.37%	10.92%
Simulation II	10.00%	10.19%	10.39%	10.48%	10.57%	10.67%
Simulation III	10.05%	10.26%	10.46%	10.56%	10.66%	10.77%
Simulation IV	9.88%	10.04%	10.21%	10.29%	10.36%	10.44%

Table 10 - EBIT Margins

So, being indifferent between all the strategies in an operational point of view, undoubtedly the key element in terms of income will be interest payments. In line with the previous

analysis, interest can be expected to be higher in the cases where financial leases are used more. This means that the profit will be higher in simulation III where financial leases are used less and the debt has less weight in the Balance Sheet of the Group.

On the other hand, taxes are higher in the cases where we pay less interest associated with debt. However, even paying more tax, simulation I and III are the most profitable for the Group's shareholders.

Although simulation II may be considered an alternative for the Group, this strategy will not be able to generate sufficient earnings to meet simulation III's result. This leasing strategy is the one showing a clearer image about the Group to the market. Simulation IV is definitely not an option since that case was considered a last option for the Group, although it is interesting to see that the Group in 2015 is already able to generate sufficient operating income to meet debt requirements.

One of the most important questions that this work addresses is if Latam Group will be able to negotiate better contracts and also renegotiate some of the past ones. Looking at the present situation it seems to be clear that some of Tam agreements are not as good as the existing Lan ones. With the biggest weight of Latam in the market, some future contracts can be negotiated, with certainly better conditions on behalf of the joint group than the ones negotiated in the past for either one of the two companies. However, when it comes to renegotiating past contracts, it is not consensual that suppliers will be open to immediately review existing terms, since is those players (Banks, Aircraft Manufacturers, etc) will still be expectant with respect to the results of the merge. This is the opinion of some specialists in the aircraft leasing industry, which we interviewed for this project. , They claimed they are waiting for the first signs of the merge to see if the management is able to handle efficiently the consolidated operation. According to these opinions, it is expectable that banks will wait between one and two years to see the consistency of the results and take a solid position.

Although it is crucial to emphasize an overall optimism and enthusiasm about the success of the operation.

Taking into account that the leasing strategy of the group is fundamental for the financial position of the stakeholders, it is important to connect each simulation with a possible standpoint of these players. Simulation III will be the one that should become most favorable, since the company will have lower Debt Ratios and will be able to generate enough revenues to face to all the financial obligations. The most difficult situation to handle is the case of simulation IV since the group will get high levels of debt without an anticipation of decreasing those levels in a near future.

Simulation V & Simulation VI

In order to understand if Lan and Tam would be interested in a merger where the option of accounting for operational leases does not exist, Lan's accounts were modeled to capitalize all the fleet as a financial lease since 2000. With these simulations we are able to understand if Lan would be in a good situation to face the challenges of the market in recent years.

In the year of the change of strategy, Lan suffers abrupt changes in its debt ratios and margins as in the previous simulations. The debt ratio registered a value of 75% in 2000, although the capitalization of the assets will generate much more debt, which increases the debt ratio to 102%. This means that the company would have negative equity due to the negative income for the year of \$245.72 million. After the first impact on the accounts due to the capitalization, the company will have negative results until 2007. In terms of the interest coverage ratio, Lan will only be able to generate ratios above 100% in 2008, when the company increased revenues to almost \$1 billion.

In terms of margins, as we can see in the table below analyzing the EBITDA margin, we see that operating income will increase, due to the operating lease coming off the accounts and so increasing operating income before depreciation, as expected. In the case of EBIT Margin

we note that the pattern is not the same as EBITDA because of depreciation that accounted for an additional weight in the income statement.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Adj. EBIT	-78.41	102.34	138.87	175.22	193.63	166.56	268.85	435.53	502.43	484.22	572.50	491.39
Adj. EBIT Margin	-5.83%	7.62%	10.48%	11.52%	9.84%	7.02%	9.32%	12.99%	11.46%	13.76%	13.04%	8.80%
Adj. EBITDA	241.90	247.49	288.78	309.41	372.77	363.81	537.32	713.09	778.60	804.45	1,054.02	1,067.49
Adj. EBITDA Margin	18.00%	18.44%	21.80%	20.35%	18.93%	15.34%	18.62%	21.28%	17.75%	22.86%	24.01%	19.11%

Table 11 - Adjusted EBIT Margin & EBITDA Margin

In the case of Tam (Simulation VI), the expected result of this simulation is to have a bigger impact than in Lan, as the firm uses more operational leasing and the reversion of this situation can cause the company higher costs.

In 2004 when the company capitalizes all the airplanes into the Balance Sheet the results of the company suffer a huge impact. Net Income decreases to a loss of almost \$500 million, the debt ratio increases and the general picture of the company greatly deteriorates. But for Tam the worst years are from 2005 to 2007. The company, accumulating losses, is unable to hold the situation, as it is insufficiently capitalized. This means that between those years the company registers negative equity and the debt ratios increase even more. In those years the debt ratio reaches 108% and the company accumulates losses of almost \$800 million.

In relation to operating income before depreciation, the EBITDA margins increase significantly since the firm's high operating lease payments are canceled and the new financial lease payments are expensed as financial costs. Due to this depreciation increases very significantly causing a decrease in the company's EBIT Margin in most years.

	2004	2005	2006	2007	2008	2009	2010	2011
Adj. EBIT	-479.47	-361.46	-1.61	-415.42	326.97	79.76	488.75	501.05
Adj. EBIT Margin	-30.96%	-15.55%	-0.05%	-10.40%	5.89%	1.73%	8.37%	7.48%
Adj. EBITDA	128.07	199.25	735.5	543.41	812.16	690.67	1,221.78	1,292.65
Adj. EBITDA Margin	8.27%	8.57%	22.26%	13.61%	14.64%	14.99%	20.92%	19.29%

Table 12 - Adjusted EBIT Margin & EBITDA Margin

To complete the analysis of the last two simulations it is important to observe if the past leasing strategies had influence in the merger and if yes how. As we saw above, if Lan and Tam had to capitalize all the airplanes, their balance sheets would overly burdened in terms

of debt and debt ratios would increase to extremely high values. Under these conditions the merger would be financially unviable. Since it is our understanding that the merger is strategically extremely interesting for the companies, we can conclude that these scenarios of extreme capitalization will not be the ones used in the future.

9. Conclusions

After running the proposed simulations and analyzing each situation independently, it is possible to draw some conclusions that are important for the future of the biggest airline group in Latin America.

First of all, it is very important to note that the company, even in the worst-case scenario, is able to recover in the medium/short term from the initial changes in the structure. This is an important sign for the market, since it shows that the Group appears to have a great capacity to survive bad results and high debt ratios over certain periods. However, it is important to take into account one of the most important assumptions made, that in all the simulations banks help and protect the Group and are available to meet its needs. In the long term, the Group is not only prepared to turn results positive, but is also able to reduce debt ratios within 2/3 years of the merger.

Another important conclusion regards the operating income before depreciation. It is interesting to see that at this stage (operational) the choice of leasing strategy is indifferent, since the margin that the company achieves is almost the same whichever the simulation. This emphasizes the importance of debt in airline companies.

Each simulation we saw above has different conditions and show different results. In Simulation I, Latam registers a D/E ratio on the average of the industry, the Debt ratio becomes stable around 84% and the EPS will not follow a trend of growth, registering values between \$1.13 and \$1.59. The second case where the group uses Lan strategy, the D/E ratio will be slightly above the average of the industry and the EPS is expected to increase by 19% in 6 years. In Simulation III the group will have lowest debt and D/E ratios and higher EPS. In this case Latam will be able to reduce the D/E ratio from 318.4% to 198.2% and the EPS will grow almost 40% in the forecasted years. This shows a huge capacity by the group to meet their obligation and to generate good results for their shareholders. Last simulation is

intended to show the impact of the capitalization of leases, originating a huge increase in the levels of debt and showing a financial situation weaker than the necessary.

Considering the conclusions above, in our opinion, it is likely that the ex-Lan management will not be able to maintain the strategy they currently have in place at Lan, as the group will likely need to show more immediate results of the merge. So, in our opinion, the more likely leasing strategy for the group is the case of simulation III using more operating leases, since it generates better and more stable results in the short term. In our point of view adopting this strategy the group will be able to compensate their shareholders faster and will record lower debt ratios than the other options.

For the company to gain a stronger financial position from year to year, the Group must have a clear idea of the leasing strategy at the outset, as the sooner the Group defines what the strategy is and is able to implement it, the more stable the accounts will be and the better will be the signals sent to the market, improving the perspectives and also the confidence in the new group.

10. Glossary⁵

"**ASK**" means available seat kilometers, or the product of the number of seats available in all aircraft multiplied by the distance the seats are flown in kilometers.

$$ASK = \text{Available Seats} \times \text{Kilometers Flown by the Seat}$$

"**RPK**" means revenue passenger kilometer, which corresponds to the product of the number of paying passengers transported multiplied by the number of kilometers flown by those passengers.

$$RPK = \text{N}^{\circ} \text{ of Paying Passengers Transported} \times \text{Kilometers Flown by each Passenger}$$

"**Load factor**" means the percentage of an aircraft occupied by paying passengers on a flight, or the quotient of RPK divided by ASK.

$$\text{Load Factor} = \frac{RPK}{ASK}$$

"**Yield**" means the average amount paid per passenger to fly one kilometer.

$$\text{Yield} = \frac{\text{Revenues}}{RPK}$$

"**RASK**" means revenue per ASK, or the quotient of net revenue divided by the number of available seat kilometers.

$$RASK = \text{Load Factor} \times \text{Yield} = \frac{RPK}{ASK} \times \frac{\text{Revenues}}{RPK}$$

"**Average tariff**" means the quotient of passenger transport revenue divided by the number of paying passengers transported.

"**Block hours**" refers to the elapsed time between an aircraft's departure from its airport departure gate and arrival at its airport destination gate.

⁵ All the definitions were taken from the 2011 Tam Annual Report pp. 1

Appendix 1

Mergers in the sector

Mergers & Acquisitions have become one of the hottest topics in the airline industry. In order to be more competitive, efficient and profitable, carriers try to explore the market needs. Those M&As allowed cost reductions, eliminating duplicated operations and increasing revenues and market share.

Air France and KLM This merger was the event of the decade in the industry creating the biggest and one of the most innovative and efficient groups in the world. Competition authorities approved the agreement in May 2004.

The Group became controlled by Air France shareholders (81%) and was renamed Air France KLM Group.

One of the main objectives in the wave of mergers in the airline industry is the synergies. Air France and KLM forecast synergies of between €75 million and €500 million on the date of the merger.

According to the Group in 2006-2007, the merger caused the operating income to be multiplied by 3.4, as the revenues increased by 1.3 and the share price by 2.5.⁶ Those numbers are one more sign of the success of the merger and the benefits that both companies and their shareholders had from merging.

United Airways and Continental Airlines United Continental Holdings is the Group founded by the merger of United and Continental Airlines, although the name adopted was United. Continental shareholders received 1.05 shares of United for each share of Continental. At the end of the merger, United shareholders owned 55% of the new company and Continental investors 45%. After the merger United Continental was the airline group with the biggest capacity in the world.

The Group has annual revenues of around \$30 billion, carrying around 144 million passengers to almost 60 countries. The Group will be bigger than Air France – KLM and Delta Airlines and Northwest.

The expected synergies for the Group are between \$1 billion and \$1.2 billions by 2013, one of the most auspicious synergy plans ever in the industry.

⁶ Air France KLM, 2006-2007 Annual Report, p. 2 and 11.

British Airways and Iberia The merger of British Airways and Iberia created the International Airlines Group (IAG) in January 2011. The shareholders of British Airways own 55% of the Group and Iberia shareholders 45%.

Once more this merger gave rise to one of the biggest airline groups in the world, with 419 aircraft, 200 destinations and an average of 62 million passengers a year. The expectation of this merger in terms of synergies was €400 million a year. With all this favorable data the merger was one of the most well accepted mergers in the sector (by analysts, unions, etc.).

However, it is important to note that nowadays the company is having some problems with the Spanish subsidiary, which is under a restructuring plan that will lead to 4,500 job cuts and a huge cost reduction plan.

Appendix 2



January 2012

AIRBUS AIRCRAFT

2012 AVERAGE LIST PRICES (mio USD)

A318	67.7
A319	80.7
A320	88.3
A321	103.6
A319neo	88.8
A320neo	96.7
A321neo	113.3
A330-200	208.6
A330-200F	211.5
A330-300	231.1
A350-800	245.5
A350-900	277.7
A350-1000	320.6
A380-800	389.9

Price depends on design weights, engines choice and level of selected customisation.

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Jet Prices

Airplane Families	2012 \$ in Millions Average
737 Family	
737-700	74.8
737-800	89.1
737-900ER	94.6
737 MAX 7	82.0
737 MAX 8	100.5
737 MAX 9	107.3
747 Family	
747-8	351.4
747-8 Freighter	352.0
767 Family	
767-200ER	160.2
767-300ER	182.8
767-300 Freighter	185.4
767-400ER	200.8
777 Family	
777-200ER	258.8
777-200LR	291.2
777-300ER	315.0
777 Freighter	295.7
787 Family	
787-8	206.8
787-9	243.6

Boeing is committed to providing the most current data available. We hope you find this information useful as you review our complete family of airplanes -- including the only freighter family available today.

The prices above reflect an average price reflecting a range of available options and configurations for each model. Configurations and options that may affect price include performance capability, interiors, avionics, fuel capacity, etc.

All prices are in U.S. dollars and are in millions.

Appendix 3

Lan's history Línea Aérea Nacional de Chile (Lan) was founded in 1929 by Arturo Merino Benítez, to provide transportation to passengers, mail and cargo in the country. In 1989 after 60 years of being a state-owned company, the Chilean government decided to sell 51% of its stake to Icarosan and Scandinavian Airlines System (SAS).

1994 was, however, the year with major changes in Lan's shareholder structure. The state sold its remaining stake to private investors. Since that year the company was controlled by the Cueto family (current major shareholders of the Latam Group) and by the businessman Sebastian Piñera (current President of Chile). At this time Lan was already the biggest airline in Chile.

In 2008 Lan was voted the 3rd best airline in the world and the 1st in Latin America. *"LAN Airlines' strategy for growth over the last decade has been based on the creation of a multicarrier-multihub network, (...)".*⁷ This is one of the most important strategies taken by Lan, as it was able to reach many more passengers with more quality and efficiency, leading Lan to be one of the best carriers in the world.

An important year for Lan and all the stakeholders was 2010, when Lan signed a memorandum of understanding with Tam for one of the biggest mergers in the sector. After passing through all the responsible authorities the merger was approved in July of 2012 and the two companies merged on 22 June 2012.

Lan has activity in several countries under its brand, like LAN Peru (since 1999), LAN Ecuador (since 2003), LAN Argentina (since 2005) and LAN Colombia (since 2010). In the cargo sector, LAN controls LAN Cargo, ABSA Cargo and MasAir Cargo Airline.

Tam's history In 1961, 10 young pilots founded Táxi Aéreo Marília (TAM) in Marília, a city in the interior of Brazil, with the objective of transporting mail and passengers.

In 1972 one of the 10 founders, Rolim Amaro, decided to buy half of the shares of the company and took control. In 1976 the airline was restructured and renamed Tam – Transportes Aéreos Regionais, with Rolim Amaro holding a stake of 67%.

The 1980s were remarkable as Tam reached its target of 1 million passengers transported.

After buying some smaller companies in 1996, Tam was able to fly all over Brazilian territory and continued the growth strategy introduced by Amaro. In 2001, Amaro died tragically in an accident and the company came under the control of his children Maria Cláudia and Mauricio.

⁷ By Sergio Mendoza, Vice President for Commercial Platforms & Best Practices at LATAM Airlines Group.

In 2009 Tam joined the Star Alliance and became an important player in the Latin American market, establishing agreements with international airlines like TAP Portugal and Lufthansa. In 2010 TAM agreed to merge with LAN and both companies saw their processes approved in June 2012.

Appendix 4

Lan Historical Balance Sheet

LAN Balance Sheet	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Assets	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$
Current Assets												
Cash & Near Cash Items	68.67	72.72	128.51	134.22	191.34	46.25	158.54	320.09	271.59	731.50	631.05	374.41
Short-Term Investments	0.00	0.00	30.55	85.20	113.29	112.98	60.07	147.95	138.43	60.42	245.45	227.80
Accounts & Notes Receivable	160.92	132.60	139.98	149.42	153.83	180.41	241.41	285.96	277.46	423.74	481.35	537.41
Inventories	25.66	33.37	35.30	33.46	35.32	37.28	46.83	58.10	50.61	46.56	53.19	72.79
Other Current Assets	81.89	93.57	80.55	85.43	97.01	202.30	199.46	281.80	612.95	146.76	122.02	130.95
Total Current Assets	337.131	332.269	414.892	487.739	590.788	579.225	706.308	1093.9	1351.03	1408.97	1533.07	1343.35
Non-Current Assets												
LT Investments & LT Receivables	9.57	2.54	9.42	7.93	10.91	10.95	30.55	13.98	11.71	7.70	29.47	29.32
Net Fixed Assets	706.98	976.28	1,024.10	1,011.64	978.97	1,252.27	1,876.03	2,351.61	3,093.37	4,196.56	4,948.43	5,927.98
Other Long-Term Assets	103.30	110.05	133.42	124.65	248.56	303.34	315.90	442.26	448.76	158.75	274.93	348.00
Total Long-Term Assets	819.85	1,088.87	1,166.94	1,144.21	1,238.44	1,566.56	2,222.48	2,807.84	3,553.83	4,363.00	5,252.83	6,305.31
Total Assets	1,156.98	1,421.14	1,581.83	1,631.95	1,829.23	2,145.78	2,928.79	3,901.74	4,904.86	5,771.97	6,785.90	7,648.66

Liabilities												
Current Liabilities												
Accounts Payable	113.89	141.26	157.93	172.85	224.06	236.21	260.95	322.90	361.62	377.44	645.57	645.09
Short-Term Borrowings	51.46	82.44	76.46	79.38	85.82	110.46	153.92	176.94	221.65	387.45	542.62	582.26
Other Short-Term Liabilities	165.75	194.26	223.75	255.25	272.05	337.75	461.42	622.77	795.75	758.45	955.82	1,094.74
Total Current Liabilities	331.11	417.96	458.15	507.48	581.93	684.42	876.28	1,122.61	1,379.03	1,523.34	2,144.02	2,322.08
Non-Current Liabilities												
Long-Term Borrowings	391.41	583.80	611.34	560.85	317.23	521.97	1,031.08	1,228.65	1,654.95	2,694.81	2,562.35	3,109.14
Other Long-Term Liabilities	145.60	131.44	200.27	206.19	491.82	433.31	390.79	557.25	747.19	447.90	779.47	760.07
Total Non-Current Liabilities	537.01	715.24	811.60	767.04	809.05	955.28	1,421.88	1,785.90	2,402.14	3,142.71	3,341.82	3,869.21
Total Liabilities	868.12	1,133.20	1,269.75	1,274.52	1,390.97	1,639.70	2,298.16	2,908.50	3,781.16	4,666.05	5,485.84	6,191.29
Shareholders' Equity												
Minority Interest	0.60	2.18	3.92	4.12	3.70	3.37	4.31	5.19	5.72	7.10	3.25	12.05
Share Capital & APIC	134.26	133.01	134.00	134.59	134.30	134.30	134.30	453.44	453.44	453.44	453.44	473.91
Retained Earnings & Other Equity	154.00	152.75	174.16	218.72	300.25	368.41	492.02	534.61	664.53	645.38	843.37	971.42
Total Equity	288.86	287.94	312.08	357.43	438.26	506.09	630.63	993.24	1,123.70	1,105.93	1,300.06	1,457.37
Total Liabilities & Equity	1,156.98	1,421.14	1,581.83	1,631.95	1,829.23	2,145.78	2,928.79	3,901.74	4,904.86	5,771.97	6,785.90	7,648.66

Appendix 5

Tam Historical Balance Sheet

TAM Balance Sheet	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$
Assets												
Current Assets												
Cash & Near Cash Items	21.02	4.43	12.94	24.65	32.35	39.79	57.34	75.81	290.25	617.21	609.77	348.89
Short-Term Investments	0.00	0.00	0.00	34.98	79.42	386.43	1,091.22	1,389.55	536.73	580.38	848.01	904.27
Accounts & Notes Receivable	204.64	190.12	67.94	101.37	204.30	326.77	365.68	527.22	500.00	644.08	937.82	976.23
Inventories	24.76	39.19	27.58	30.22	35.43	44.77	53.32	91.33	73.20	111.99	119.73	114.10
Other Current Assets	50.73	55.95	58.49	76.74	75.19	136.61	241.09	743.32	185.82	223.97	198.73	391.00
Total Current Assets	301.16	289.69	166.95	267.96	426.69	934.37	1,808.64	2,827.23	1,586.00	2,177.62	2,714.07	2,734.50
Non-Current Assets												
LT Investments & LT Receivables	11.77	71.13	3.58	49.92	47.41	50.84	0.03	369.16	0.00	0.00	30.29	74.07
Net Fixed Assets	1,034.35	795.94	664.74	541.61	269.31	329.10	370.69	444.01	4,175.18	4,669.36	5,248.10	5,000.78
Other Long-Term Assets	94.75	53.38	163.94	110.81	82.11	103.29	240.61	37.49	482.48	581.31	740.87	769.65
Total Non-Current Assets	1,140.88	920.45	832.25	702.35	398.83	483.23	611.33	850.66	4,657.66	5,250.67	6,019.26	5,844.49
Total Assets	1,442.04	1,210.14	999.21	970.31	825.52	1,417.60	2,419.98	3,677.89	6,243.65	7,428.29	8,733.33	8,578.99

Liabilities												
Current Liabilities												
Accounts Payable	83.97	129.96	89.49	69.13	99.48	120.77	162.39	239.94	210.02	247.41	314.68	346.53
Short-Term Borrowings	71.51	71.50	96.10	86.63	74.61	88.46	164.63	554.37	393.24	714.51	947.04	1,072.29
Other Short-Term Liabilities	175.89	178.74	130.95	178.61	229.13	387.27	623.15	752.61	1,227.75	1,595.29	1,746.42	1,396.69
Total Current Liabilities	331.37	380.20	316.55	334.37	403.22	596.50	950.18	1,546.93	1,831.01	2,557.21	3,008.15	2,815.50
Non-Current Liabilities												
Long-Term Borrowings	705.13	479.99	452.26	331.21	108.77	145.73	417.89	434.17	3,101.70	3,401.11	3,486.05	3,846.22
Other Long-Term Liabilities	148.89	150.29	172.63	284.45	240.93	349.13	404.32	856.84	737.55	727.12	656.36	777.29
Total Non-Current Liabilities	854.02	630.28	624.89	615.66	349.70	494.86	822.21	1,291.00	3,839.25	4,128.23	4,142.42	4,623.51
Total Liabilities	1,185.39	1,010.48	941.45	950.03	752.92	1,091.36	1,772.39	2,837.93	5,670.26	6,685.45	7,150.56	7,439.01
Shareholders' Equity												
Minority Interest	0.94	0.00	0.00	0.34	0.76	0.79	1.28	1.48	1.83	1.96	123.78	38.27
Share Capital & APIC	114.00	51.10	33.35	41.78	45.46	65.90	316.06	379.71	291.85	387.77	493.91	440.02
Retained Earnings & Other Equity	141.72	148.57	24.41	-27.27	26.37	259.55	330.25	458.77	279.71	353.12	965.07	661.69
Total Equity	256.65	199.66	57.76	14.84	72.60	326.24	647.59	839.96	573.40	742.85	1,582.77	1,139.97
Total Liabilities & Equity	1,442.04	1,210.14	999.21	964.87	825.52	1,417.60	2,419.98	3,677.89	6,243.65	7,428.29	8,733.33	8,578.99

Appendix 6

Lan Historical Income Statement

LAN Income Statement	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$
Revenue												
Passengers	750.68	803.01	803.72	918.37	1,169.05	1460.58	1813.37	2,197.20	2,858.94	2,623.61	3,109.80	4,008.91
Cargo	593.52	539.49	520.79	602.04	799.66	910.45	1072.73	1,154.32	1,527.11	895.55	1,280.71	1,576.53
Total	1,344.20	1,342.50	1,324.51	1,520.41	1,968.71	2,371.04	2,886.10	3,351.52	4,386.04	3,519.16	4,390.50	5,585.44
Cost of Revenue	953.49	971.38	949.70	1,051.67	1,324.76	1,566.61	1,811.07	2,160.45	2,858.77	2,522.78	3,012.70	4,078.60
Gross Profit	390.70	371.12	374.81	468.74	643.95	804.43	1,075.04	1,191.07	1,527.28	996.38	1,377.80	1,506.84
Other Operating Revenue	80.96	85.84	127.93	118.39	124.24	135.32	147.86	173.40	148.24	154.53	138.26	132.80
Operating Expenses	396.38	406.71	440.67	475.42	596.09	798.11	923.59	954.10	1,142.35	697.04	887.78	1,133.00
Operating Income	75.28	50.25	62.06	111.72	172.10	141.64	299.30	410.38	533.17	453.88	628.29	506.65
Interest Expense	31.67	36.75	42.56	39.35	36.52	39.19	60.74	76.22	82.69	118.23	123.29	109.71
Foreign Exchange Losses (Gains)	-5.67	3.89	4.84	-12.06	-2.36	-6.00	-5.54	-15.70	7.87	11.24	-13.79	0.26
Net Non-Operating Losses (Gains)	-10.04	-3.39	-26.03	-18.68	-56.87	-64.66	-42.79	-17.96	40.99	46.89	16.77	14.33
Pretax Income	59.32	12.99	40.70	103.10	194.80	173.11	286.89	367.81	401.62	277.52	502.03	382.36
Income Tax Expense	10.41	-0.55	7.32	15.85	28.29	28.26	46.84	59.78	64.69	44.49	81.11	61.79
Net Income	48.91	13.55	33.38	87.25	166.51	144.85	240.06	308.03	336.93	233.03	420.93	320.57

Appendix 7

Tam Historical Income Statement

TAM Income Statement	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$
Revenue												
Passenger	1,042.07	1,083.90	1,095.32	1,094.06	1,440.21	2,156.81	3,081.09	3,593.27	4,987.62	4,133.99	5,208.10	5,996.63
Cargo	78.42	81.57	82.43	82.33	108.38	168.02	223.74	400.84	560.14	474.77	632.96	704.99
Total	1,120.49	1,165.47	1,177.75	1,176.40	1,548.59	2,324.84	3,304.83	3,994.11	5,547.76	4,608.75	5,841.06	6,701.61
Cost of Revenue	659.19	838.95	921.68	869.57	1,032.05	1,566.93	2,175.67	3,023.23	4,316.14	3,661.56	4,658.93	5,625.32
Gross Profit	461.30	326.53	256.07	306.83	516.54	757.91	1,129.17	970.88	1,231.63	947.20	1,182.13	1,076.29
Other Operating Revenue	0.00	55.56	0.00	4.78	0.00	6.34	73.02	211.93	288.03	343.09	631.81	1,083.84
Operating Expenses	315.67	329.86	343.03	325.20	420.58	600.78	801.89	1,070.70	1,209.38	1,183.86	1,258.15	1,574.74
Operating Income	145.63	52.22	-86.96	-13.59	95.96	163.47	400.29	112.11	310.27	106.42	555.78	585.39
Interest Expense	63.13	49.85	47.02	56.65	19.64	36.97	137.66	118.88	297.41	232.86	270.51	288.71
Foreign Exchange Losses (Gains)	73.21	85.14	228.27	-138.61	-2.38	-10.33	-5.03	45.46	698.36	-872.95	-138.31	539.78
Net Non-Operating Losses (Gains)	-2.63	-45.90	-54.29	-8.71	-91.79	14.88	-124.87	-140.47	462.45	-215.91	-211.25	-82.53
Pretax Income	11.91	-36.86	-307.96	77.09	170.49	121.95	392.53	88.23	-1,147.95	962.43	634.84	-160.56
Income Tax Expense	12.21	-12.60	-93.74	20.08	53.43	44.77	136.38	21.72	-352.07	329.36	254.31	-33.86
Net Income	-0.30	-24.26	-214.22	57.01	117.06	77.18	256.15	66.51	-795.88	633.06	380.53	-126.70

Appendix 8

LAN																			
Capacity Forecast																			
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F	
Passengers																			
ASKs	14,413.00	16,901.70	17,066.80	18,323.90	21,147.40	23,687.30	26,400.00	31,556.10	35,176.20	38,777.10	42,355.20	48,154.30	50,080.47	52,083.69	54,167.04	56,333.72	58,587.07	60,930.55	
%		17.3%	1.0%	7.4%	15.4%	12.0%	11.5%	19.5%	11.5%	10.2%	9.2%	13.7%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
RPKs	9,931.30	11,279.80	11,139.50	12,671.00	15,125.30	17,490.80	19,495.50	24,001.20	26,951.60	29,830.10	33,147.50	38,423.50	40,064.38	41,666.95	43,333.63	45,066.98	46,869.66	48,744.44	
%		13.6%	-1.2%	13.7%	19.4%	15.6%	11.5%	23.1%	12.3%	10.7%	11.1%	15.9%	4.27%	4.00%	4.00%	4.00%	4.00%	4.00%	
Passengers	4.32	5.24	5.32	5.51	6.58	7.97	8.88	11.09	13.24	15.40	17.29	22.59	23.04	23.50	24.68	25.91	27.21	28.57	
%		21.32%	1.53%	3.62%	19.42%	21.10%	11.48%	24.89%	19.37%	16.35%	12.26%	30.64%	2.00%	2.00%	5.00%	5.00%	5.00%	5.00%	
Passenger Load Factor	68.9%	66.7%	65.3%	69.2%	71.5%	73.8%	73.8%	76.1%	76.6%	76.9%	78.3%	79.8%	80.0%	80.0%	80.0%	80.0%	80.0%	80.0%	
Passengers Yield	7.6%	7.1%	7.2%	7.2%	7.7%	8.4%	9.3%	9.2%	10.6%	8.8%	9.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	
RASK	0.052	0.048	0.047	0.050	0.055	0.062	0.069	0.070	0.081	0.068	0.073	0.083	0.083	0.083	0.083	0.083	0.083	0.083	
Cargo																			
ATKs	2,820.70	2,676.40	2,731.00	2,848.40	3,288.40	3,599.70	3,861.30	3,632.80	4,080.30	3,835.00	4,620.20	5,192.70	5,400.41	5,670.43	5,953.95	6,251.65	6,564.23	6,892.44	
%		-5.1%	2.0%	4.3%	15.4%	9.5%	7.3%	-5.9%	12.3%	-6.0%	20.5%	12.4%	4.00%	5.00%	5.00%	5.00%	5.00%	5.00%	
RTKs	2,046.80	1,853.20	1,833.80	1,911.90	2,259.40	2,392.30	2,579.20	2,702.30	2,906.70	2,623.30	3,238.80	3,612.40	3,780.29	4,139.41	4,465.46	4,688.74	4,923.17	5,169.33	
%		-9.5%	-1.0%	4.3%	18.2%	5.9%	7.8%	4.8%	7.6%	-9.7%	23.5%	11.5%	4.65%	9.50%	7.88%	5.00%	5.00%	5.00%	
Tons	0.40	0.39	0.42	0.42	0.60	0.53	0.56	0.60	0.66	0.65	0.78	0.88	0.91	0.95	0.99	1.03	1.07	1.11	
%		-3.3%	7.5%	0.8%	40.6%	-11.3%	6.6%	7.1%	9.5%	-1.8%	20.1%	12.4%	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	
Cargo Load Factor	72.6%	69.2%	67.1%	67.1%	68.7%	66.5%	66.8%	74.4%	71.2%	68.4%	70.1%	69.6%	70.0%	73.0%	75.0%	75.0%	75.0%	75.0%	
Cargo Yield	29.0%	29.1%	28.4%	31.5%	35.4%	38.1%	41.6%	42.7%	52.5%	34.1%	39.5%	43.6%	43.6%	43.6%	43.6%	43.6%	43.6%	43.6%	
RATK	0.210	0.202	0.191	0.211	0.243	0.253	0.278	0.318	0.374	0.234	0.277	0.304	0.305	0.319	0.327	0.327	0.327	0.327	

Appendix 9

TAM																		
Capacity Forecast																		
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F
<u>Passengers</u>																		
ASKs			22,017.00	18,003.00	20,999.00	28,024.00	35,564.00	47,599.00	57,091.00	64,720.00	71,532.00	78,416.00	76,847.68	79,921.59	83,118.45	86,443.19	89,900.92	93,496.95
%				-18.2%	16.6%	33.5%	26.9%	33.8%	19.9%	13.4%	10.5%	9.6%	-2.00%	4.00%	4.00%	4.00%	4.00%	4.00%
RPKs			12,075.00	10,916.00	13,854.00	19,797.00	26,389.00	33,500.00	40,518.00	44,148.00	51,450.00	57,654.00	56,483.04	59,141.97	62,338.84	64,832.39	67,425.69	70,122.71
%				-9.6%	26.9%	42.9%	33.3%	26.9%	20.9%	9.0%	16.5%	12.1%	-2.03%	4.71%	5.41%	4.00%	4.00%	4.00%
Passengers			13.76	11.20	13.52	19.57	25.02	27.85	30.14	30.41	34.56	37.69	38.45	39.21	41.57	42.81	45.38	46.75
%				-18.60%	20.75%	44.73%	27.85%	11.30%	8.24%	0.87%	13.64%	9.08%	2.00%	2.00%	6.00%	3.00%	6.00%	3.00%
Passenger Load Factor			54.8%	60.6%	66.0%	70.6%	74.2%	70.4%	71.0%	68.2%	71.9%	73.5%	73.5%	74.0%	75.0%	75.0%	75.0%	75.0%
Passenger Yield			9.1%	10.0%	10.4%	10.9%	11.7%	10.7%	12.3%	9.4%	10.1%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%	10.4%
RASK			0.050	0.061	0.069	0.077	0.087	0.075	0.087	0.064	0.073	0.076	0.076	0.077	0.078	0.078	0.078	0.078

Appendix 10

Fleet Forecast

Lan		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F
Fleet	Passenger	39	48	47	48	56	63	70	73	81	85	118	135	142	149	156	164	172	181
														5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
	Cargo	8	12	9	7	7	9	10	10	9	11	13	14	15	16	17	18	19	20
														5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
	Total	47	60	56	55	63	72	80	83	90	96	131	149	157	165	173	182	191	201
In BS		7	21	25	24	24	27	36	43	57	80	89	100	105	110	115	121	127	134
	out BS	40	39	31	31	39	45	44	40	33	16	42	49	52	55	58	61	64	67
Out/Total		85.1%	65.0%	55.4%	56.4%	61.9%	62.5%	55.0%	48.2%	36.7%	16.7%	32.1%	32.9%	33.3%	33.3%	33.3%	33.3%	33.3%	33.3%

Tam		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012F	2013F	2014F	2015F	2016F	2017F
Total						83	84	95	115	129	132	151	161	169	177	186	195	205	215
														5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
In BS								0	0	68	66	82	89	90	94	99	103	109	114
Out BS								95	115	61	66	69	72	79	83	87	92	96	101
Out/Total								100.0%	100.0%	47.3%	50.0%	45.7%	44.7%	46.9%	46.9%	46.9%	46.9%	46.9%	46.9%

Latam Airlines Group														326	342	359	377	396	416
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Appendix 11

Simulation I Balance Sheet

Balance Sheet	2012F MUS\$	2013F MUS\$	2014F MUS\$	2015F MUS\$	2016F MUS\$	2017F MUS\$
Assets						
Current Assets						
Cash & Near Cash Items	517.26	543.84	572.46	596.25	621.04	646.86
Short-Term Investments	1,156.70	1,210.74	1,261.62	1,314.67	1,370.01	1,427.72
Accounts & Notes Receivable	1,394.56	1,433.97	1,486.16	1,586.94	1,678.30	1,745.69
Inventories	194.37	202.71	210.68	218.97	227.60	236.59
Other Current Assets	543.67	625.75	720.64	830.36	957.30	1,104.25
Total Current Assets	3,806.56	4,017.01	4,251.55	4,547.20	4,854.26	5,161.10
Non-Current Assets						
LT Investments & LT Receivables	176.28	192.04	180.16	198.82	194.01	195.38
Net Fixed Assets	11,320.12	11,959.39	12,609.48	13,262.90	14,044.24	14,830.16
Other Long-Term Assets	3,347.72	3,549.15	3,782.85	4,054.08	4,369.00	4,734.79
Total Non-Current Assets	14,844.12	15,700.58	16,572.49	17,515.80	18,607.25	19,760.33
Total Assets	18,650.68	19,717.59	20,824.04	22,063.00	23,461.51	24,921.43
Liabilities						
Current Liabilities						
Accounts Payable	1,016.00	1,066.08	1,142.87	1,184.22	1,226.91	1,275.96
Short-Term Borrowings	2,726.06	2,964.23	3,105.52	3,568.32	3,862.20	4,358.79
Other Short-Term Liabilities	2,781.92	3,061.82	3,216.15	3,386.35	3,525.95	3,671.33
Total Current Liabilities	6,523.98	7,092.13	7,464.55	8,138.90	8,615.06	9,306.08
Non-Current Liabilities						
Long-Term Borrowings	7,500.03	7,843.54	8,229.84	8,611.49	9,074.37	9,532.60
Other Long-Term Liabilities	1,699.68	1,787.02	1,881.06	1,959.25	2,040.70	2,125.58
Total Long-Term Liabilities	9,199.71	9,630.56	10,110.90	10,570.74	11,115.08	11,658.18
Total Liabilities	15,723.69	16,722.69	17,575.45	18,709.64	19,730.13	20,964.26
Shareholders' Equity						
Minority Interest	18.91	26.16	35.22	48.36	68.49	100.14
Share Capital & APIC	1,435.54	1,435.54	1,435.54	1,435.54	1,435.54	1,435.54
Retained Earnings & Other Equity	1,472.54	1,533.19	1,777.83	1,869.46	2,227.34	2,421.49
Total Equity	2,926.99	2,994.90	3,248.59	3,353.36	3,731.37	3,957.17
Total Liabilities & Equity	18,650.68	19,717.59	20,824.04	22,063.00	23,461.51	24,921.43

Simulation I Income Statement

Income Statement	2012F MUS\$	2013F MUS\$	2014F MUS\$	2015F MUS\$	2016F MUS\$	2017F MUS\$
Revenue						
Passenger	10,054.94	10,498.71	11,005.11	11,445.31	11,903.12	12,379.25
Cargo	2,323.82	2,512.70	2,692.13	2,819.90	2,953.78	3,094.08
Total	12,378.76	13,011.41	13,697.23	14,265.21	14,856.91	15,473.33
Cost of Revenue	9,623.28	10,212.76	10,684.51	11,368.27	11,588.34	12,152.79
Gross Profit	2,755.48	2,798.65	3,012.72	2,896.94	3,268.57	3,320.54
Other Operating Revenue	1,273.79	1,335.84	1,393.85	1,454.40	1,517.62	1,583.62
Operating Expenses	2,659.44	2,769.50	2,875.25	2,984.03	3,097.47	3,214.31
Operating Income	1,369.83	1,364.99	1,531.32	1,367.32	1,688.71	1,689.84
Interest Expense	402.10	566.42	600.06	627.81	677.56	717.56
Foreign Exchange Losses (Gains)	-4.05	-4.05	-4.05	-4.05	-4.05	-4.05
Net Non-Operating Losses (Gains)	40.41	40.41	40.41	40.41	40.41	40.41
Pretax Income	931.37	762.21	894.91	703.15	974.79	935.93
Income Tax Expense	215.48	180.46	212.40	164.93	219.57	218.12
Net Income	715.89	581.75	682.51	538.22	755.22	717.81

Appendix 12

Simulation II Balance Sheet

Balance Sheet	2012F MUS\$	2013F MUS\$	2014F MUS\$	2015F MUS\$	2016F MUS\$	2017F MUS\$
Assets						
Current Assets						
Cash & Near Cash Items	517.26	543.84	572.46	596.25	621.04	646.86
Short-Term Investments	1,156.70	1,210.74	1,261.62	1,314.67	1,370.01	1,427.72
Accounts & Notes Receivable	1,394.56	1,433.97	1,486.16	1,586.94	1,678.30	1,745.69
Inventories	194.37	202.71	210.68	218.97	227.60	236.59
Other Current Assets	543.67	625.75	720.64	830.36	957.30	1,104.25
Total Current Assets	3,806.56	4,017.01	4,251.55	4,547.20	4,854.26	5,161.10
Non-Current Assets						
LT Investments & LT Receivables	176.28	192.04	180.16	198.82	194.01	195.38
Net Fixed Assets	12,597.27	13,366.38	14,082.55	14,861.55	15,710.51	16,564.33
Other Long-Term Assets	3,347.72	3,549.15	3,782.85	4,054.08	4,369.00	4,734.79
Total Non-Current Assets	16,121.26	17,107.57	18,045.56	19,114.45	20,273.52	21,494.50
Total Assets	19,927.82	21,124.58	22,297.11	23,661.65	25,127.77	26,655.60
Liabilities						
Current Liabilities						
Accounts Payable	1,016.00	1,066.08	1,142.87	1,184.22	1,226.91	1,275.96
Short-Term Borrowings	3,299.85	3,511.95	3,718.37	4,107.80	4,562.60	5,050.92
Other Short-Term Liabilities	2,781.92	3,061.82	3,216.15	3,386.35	3,525.95	3,671.33
Total Current Liabilities	7,097.77	7,639.86	8,077.40	8,678.38	9,315.46	9,998.21
Non-Current Liabilities						
Long-Term Borrowings	8,346.19	8,766.31	9,191.27	9,649.49	10,150.99	10,647.30
Other Long-Term Liabilities	1,699.68	1,787.02	1,881.06	1,959.25	2,040.70	2,125.58
Total Long-Term Liabilities	10,045.87	10,553.33	11,072.33	11,608.73	12,191.70	12,772.88
Total Liabilities	17,143.64	18,193.19	19,149.73	20,287.11	21,507.16	22,771.09
Shareholders' Equity						
Minority Interest	18.91	26.16	35.22	48.36	68.49	100.14
Share Capital & APIC	1,435.54	1,435.54	1,435.54	1,435.54	1,435.54	1,435.54
Retained Earnings & Other Equity	1,329.73	1,469.69	1,676.62	1,890.64	2,116.58	2,348.83
Total Equity	2,784.18	2,931.39	3,147.38	3,374.54	3,620.62	3,884.52
Total Liabilities & Equity	19,927.82	21,124.58	22,297.11	23,661.65	25,127.77	26,655.60

Simulation II Income Statement

Income Statement	2012F MUS\$	2013F MUS\$	2014F MUS\$	2015F MUS\$	2016F MUS\$	2017F MUS\$
Revenue						
Passenger	10,054.94	10,498.71	11,005.11	11,445.31	11,903.12	12,379.25
Cargo	2,323.82	2,512.70	2,692.13	2,819.90	2,953.78	3,094.08
Total	12,378.76	13,011.41	13,697.23	14,265.21	14,856.91	15,473.33
Cost of Revenue	9,667.17	10,155.06	10,692.31	11,130.78	11,591.84	12,072.10
Gross Profit	2,711.59	2,856.35	3,004.92	3,134.43	3,265.07	3,401.22
Other Operating Revenue	1,273.79	1,335.84	1,393.85	1,454.40	1,517.62	1,583.62
Operating Expenses	2,746.90	2,865.86	2,976.13	3,093.52	3,211.60	3,333.09
Operating Income	1,238.48	1,326.32	1,422.64	1,495.30	1,571.10	1,651.74
Interest Expense	536.17	646.62	680.96	716.27	764.17	814.79
Foreign Exchange Losses (Gains)	-4.05	-4.05	-4.05	-4.05	-4.05	-4.05
Net Non-Operating Losses (Gains)	40.41	40.41	40.41	40.41	40.41	40.41
Pretax Income	665.95	643.35	705.33	742.68	770.57	800.60
Income Tax Expense	154.08	152.32	167.40	174.20	173.57	186.58
Net Income	511.87	491.02	537.92	568.48	597.00	614.01

Appendix 13

Simulation III Balance Sheet

Balance Sheet	2012F MUS\$	2013F MUS\$	2014F MUS\$	2015F MUS\$	2016F MUS\$	2017F MUS\$
Assets						
Current Assets						
Cash & Near Cash Items	517.26	543.84	572.46	596.25	621.04	646.86
Short-Term Investments	1,156.70	1,210.74	1,261.62	1,314.67	1,370.01	1,427.72
Accounts & Notes Receivable	1,394.56	1,433.97	1,486.16	1,586.94	1,678.30	1,745.69
Inventories	194.37	202.71	210.68	218.97	227.60	236.59
Other Current Assets	543.67	625.75	720.64	830.36	957.30	1,104.25
Total Current Assets	3,806.56	4,017.01	4,251.55	4,547.20	4,854.26	5,161.10
Non-Current Assets						
LT Investments & LT Receivables	176.28	192.04	180.16	198.82	194.01	195.38
Net Fixed Assets	10,042.98	10,669.65	11,254.26	11,841.87	12,496.99	13,215.59
Other Long-Term Assets	3,347.72	3,549.15	3,782.85	4,054.08	4,369.00	4,734.79
Total Non-Current Assets	13,566.98	14,410.84	15,217.27	16,094.77	17,060.00	18,145.76
Total Assets	17,373.54	18,427.86	19,468.81	20,641.98	21,914.26	23,306.86
Liabilities						
Current Liabilities						
Accounts Payable	1,016.00	1,066.08	1,142.87	1,184.22	1,226.91	1,275.96
Short-Term Borrowings	2,383.49	2,239.72	2,126.88	2,142.69	2,201.46	2,290.07
Other Short-Term Liabilities	2,781.92	3,061.82	3,216.15	3,386.35	3,525.95	3,671.33
Total Current Liabilities	6,181.41	6,367.62	6,485.90	6,713.26	6,954.32	7,237.35
Non-Current Liabilities						
Long-Term Borrowings	6,653.87	7,000.03	7,346.18	7,692.34	8,076.96	8,500.04
Other Long-Term Liabilities	1,699.68	1,787.02	1,881.06	1,959.25	2,040.70	2,125.58
Total Long-Term Liabilities	8,353.55	8,787.05	9,227.25	9,651.59	10,117.66	10,625.61
Total Liabilities	14,534.97	15,154.67	15,713.15	16,364.85	17,071.98	17,862.96
Shareholders' Equity						
Minority Interest	18.91	26.16	35.22	48.36	68.49	100.14
Share Capital & APIC	1,435.54	1,435.54	1,435.54	1,435.54	1,435.54	1,435.54
Retained Earnings & Other Equity	1,384.12	1,811.48	2,284.90	2,793.22	3,338.25	3,908.21
Total Equity	2,838.57	3,273.18	3,755.66	4,277.13	4,842.28	5,443.89
Total Liabilities & Equity	17,373.54	18,427.86	19,468.81	20,641.98	21,914.26	23,306.86

Simulation III Income Statement

Income Statement	2012F MUS\$	2013F MUS\$	2014F MUS\$	2015F MUS\$	2016F MUS\$	2017F MUS\$
Revenue						
Passenger	10,054.94	10,498.71	11,005.11	11,445.31	11,903.12	12,379.25
Cargo	2,323.82	2,512.70	2,692.13	2,819.90	2,953.78	3,094.08
Total	12,378.76	13,011.41	13,697.23	14,265.21	14,856.91	15,473.33
Cost of Revenue	9,835.93	10,331.49	10,876.41	11,326.38	11,798.95	12,286.87
Gross Profit	2,542.83	2,679.92	2,820.82	2,938.83	3,057.96	3,186.45
Other Operating Revenue	1,273.79	1,335.84	1,393.85	1,454.40	1,517.62	1,583.62
Operating Expenses	2,571.98	2,681.16	2,782.43	2,886.70	2,991.51	3,103.72
Operating Income	1,244.64	1,334.59	1,432.23	1,506.53	1,584.07	1,666.35
Interest Expense	441.24	498.34	509.09	521.48	542.74	568.33
Foreign Exchange Losses (Gains)	-4.05	-4.05	-4.05	-4.05	-4.05	-4.05
Net Non-Operating Losses (Gains)	40.41	40.41	40.41	40.41	40.41	40.41
Pretax Income	767.04	799.90	886.79	948.70	1,004.98	1,061.66
Income Tax Expense	177.46	189.39	210.47	222.52	226.37	247.43
Net Income	589.57	610.51	676.32	726.18	778.60	814.24

Appendix 14

Simulation IV Balance Sheet

Balance Sheet	2012F MUS\$	2013F MUS\$	2014F MUS\$	2015F MUS\$	2016F MUS\$	2017F MUS\$
Assets						
Current Assets						
Cash & Near Cash Items	517.26	543.84	572.46	596.25	621.04	646.86
Short-Term Investments	1,156.70	1,210.74	1,261.62	1,314.67	1,370.01	1,427.72
Accounts & Notes Receivable	1,394.56	1,433.97	1,486.16	1,586.94	1,678.30	1,745.69
Inventories	194.37	202.71	210.68	218.97	227.60	236.59
Other Current Assets	543.67	625.75	720.64	830.36	957.30	1,104.25
Total Current Assets	3,806.56	4,017.01	4,251.55	4,547.20	4,854.26	5,161.10
Non-Current Assets						
LT Investments & LT Receivables	176.28	192.04	180.16	198.82	194.01	195.38
Net Fixed Assets	18,924.92	20,049.57	21,153.29	22,321.93	23,565.76	24,876.40
Other Long-Term Assets	3,347.72	3,549.15	3,782.85	4,054.08	4,369.00	4,734.79
Total Non-Current Assets	22,448.92	23,790.76	25,116.30	26,574.83	28,128.77	29,806.57
Total Assets	26,255.48	27,807.77	29,367.85	31,122.03	32,983.03	34,967.67
Liabilities						
Current Liabilities						
Accounts Payable	1,016.00	1,066.08	1,142.87	1,184.22	1,226.91	1,275.96
Short-Term Borrowings	5,560.47	5,925.56	6,329.76	6,914.63	7,583.69	8,312.79
Other Short-Term Liabilities	2,781.92	3,061.82	3,216.15	3,386.35	3,525.95	3,671.33
Total Current Liabilities	9,358.39	10,053.46	10,688.79	11,485.21	12,336.55	13,260.07
Non-Current Liabilities						
Long-Term Borrowings	12,538.51	13,153.90	13,807.75	14,500.06	15,230.83	16,000.07
Other Long-Term Liabilities	1,699.68	1,787.02	1,881.06	1,959.25	2,040.70	2,125.58
Total Long-Term Liabilities	14,238.19	14,940.92	15,688.81	16,459.31	17,271.54	18,125.64
Total Liabilities	23,596.58	24,994.38	26,377.60	27,944.52	29,608.08	31,385.72
Shareholders' Equity						
Minority Interest	18.91	26.16	35.22	48.36	68.49	100.14
Share Capital & APIC	1,435.54	1,435.54	1,435.54	1,435.54	1,435.54	1,435.54
Retained Earnings & Other Equity	1,204.45	1,351.68	1,519.48	1,693.61	1,870.91	2,046.27
Total Equity	2,658.90	2,813.39	2,990.24	3,177.52	3,374.94	3,581.95
Total Liabilities & Equity	26,255.48	27,807.77	29,367.85	31,122.03	32,983.03	34,967.67

Simulation IV Income Statement

Income Statement	2012F MUS\$	2013F MUS\$	2014F MUS\$	2015F MUS\$	2016F MUS\$	2017F MUS\$
Revenue						
Passenger	10,054.94	10,498.71	11,005.11	11,445.31	11,903.12	12,379.25
Cargo	2,323.82	2,512.70	2,692.13	2,819.90	2,953.78	3,094.08
Total	12,378.76	13,011.41	13,697.23	14,265.21	14,856.91	15,473.33
Cost of Revenue	9,249.09	9,717.83	10,232.05	10,647.54	11,085.57	11,539.01
Gross Profit	3,129.67	3,293.58	3,465.18	3,617.67	3,771.34	3,934.31
Other Operating Revenue	1,273.79	1,335.84	1,393.85	1,454.40	1,517.62	1,583.62
Operating Expenses	3,180.23	3,323.59	3,460.37	3,604.51	3,749.59	3,902.44
Operating Income	1,223.22	1,305.82	1,398.66	1,467.57	1,539.37	1,615.49
Interest Expense	753.76	993.88	1,047.99	1,106.23	1,176.10	1,252.48
Foreign Exchange Losses (Gains)	-4.05	-4.05	-4.05	-4.05	-4.05	-4.05
Net Non-Operating Losses (Gains)	40.41	40.41	40.41	40.41	40.41	40.41
Pretax Income	433.11	275.58	314.31	324.99	326.92	326.65
Income Tax Expense	100.20	65.25	74.60	76.23	73.64	76.13
Net Income	332.90	210.34	239.71	248.76	253.28	250.52

Appendix 15

	SIMULATION I						SIMULATION II					
	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F
Profitability												
EBIT	1,369.83	1,364.99	1,531.32	1,367.32	1,688.71	1,689.84	1,238.48	1,326.32	1,422.64	1,495.30	1,571.10	1,651.74
EBIT Margin	11.07%	10.49%	11.18%	9.58%	11.37%	10.92%	10.00%	10.19%	10.39%	10.48%	10.57%	10.67%
EBITDA	1,771.93	1,931.41	2,131.38	1,995.13	2,366.27	2,407.40	1,774.65	1,972.94	2,103.59	2,211.57	2,335.27	2,466.54
EBITDA Margin	14.31%	14.84%	15.56%	13.99%	15.93%	15.56%	14.34%	15.16%	15.36%	15.50%	15.72%	15.94%
ROA	3.84%	2.95%	3.28%	2.44%	3.22%	2.88%	2.57%	2.32%	2.41%	2.40%	2.38%	2.30%
ROE	24.46%	19.42%	21.01%	16.05%	20.24%	18.14%	18.39%	16.75%	17.09%	16.85%	16.49%	15.81%
EPS	1.50	1.22	1.43	1.13	1.59	1.51	1.08	1.03	1.13	1.19	1.25	1.29
Leverage												
D/E	349.37%	360.87%	348.93%	363.21%	346.70%	351.04%	418.29%	418.85%	410.17%	407.68%	406.38%	404.12%
Debt Ratio	84.31%	84.81%	84.40%	84.80%	84.10%	84.12%	86.03%	86.12%	85.88%	85.74%	85.59%	85.43%
Interest Ratio	340.67%	240.99%	255.20%	217.79%	249.23%	235.50%	230.99%	205.12%	208.92%	208.76%	205.59%	202.72%

	SIMULATION III						SIMULATION IV					
	2012F	2013F	2014F	2015F	2016F	2017F	2012F	2013F	2014F	2015F	2016F	2017F
Profitability												
EBIT	1,244.64	1,334.59	1,432.23	1,506.53	1,584.07	1,666.35	1,223.22	1,305.82	1,398.66	1,467.57	1,539.37	1,615.49
EBIT Margin	10.05%	10.26%	10.46%	10.56%	10.66%	10.77%	9.88%	10.04%	10.21%	10.29%	10.36%	10.44%
EBITDA	1,685.88	1,832.93	1,941.32	2,028.01	2,126.82	2,234.68	1,976.99	2,299.70	2,446.65	2,573.79	2,715.47	2,867.97
EBITDA Margin	13.62%	14.09%	14.17%	14.22%	14.32%	14.44%	15.97%	17.67%	17.86%	18.04%	18.28%	18.53%
ROA	3.39%	3.31%	3.47%	3.52%	3.55%	3.49%	1.27%	0.76%	0.82%	0.80%	0.77%	0.72%
ROE	20.77%	18.65%	18.01%	16.98%	16.08%	14.96%	12.52%	7.48%	8.02%	7.83%	7.50%	6.99%
EPS	1.24	1.28	1.42	1.53	1.64	1.71	0.70	0.44	0.50	0.52	0.53	0.53
Leverage												
D/E	318.38%	282.29%	252.23%	229.94%	212.26%	198.21%	680.70%	678.17%	673.44%	673.94%	676.00%	678.76%
Debt Ratio	83.66%	82.24%	80.71%	79.28%	77.90%	76.64%	89.87%	89.88%	89.82%	89.79%	89.77%	89.76%
Interest Ratio	282.08%	267.81%	281.33%	288.90%	291.86%	293.20%	162.28%	131.39%	133.46%	132.66%	130.89%	128.98%

Appendix 16

Simulation V Balance Sheet

LAN Balance Sheet	2000 MUS\$	2001 MUS\$	2002 MUS\$	2003 MUS\$	2004 MUS\$	2005 MUS\$	2006 MUS\$	2007 MUS\$	2008 MUS\$	2009 MUS\$	2010 MUS\$	2011 MUS\$
Assets												
Current Assets												
Cash & Near Cash Items	68.67	72.72	128.51	134.22	191.34	46.25	158.54	320.09	271.59	731.50	631.05	374.41
Short-Term Investments	0.00	0.00	30.55	85.20	113.29	112.98	60.07	147.95	138.43	60.42	245.45	227.80
Accounts & Notes Receivable	160.92	132.60	139.98	149.42	153.83	180.41	241.41	285.96	277.46	423.74	481.35	537.41
Inventories	25.66	33.37	35.30	33.46	35.32	37.28	46.83	58.10	50.61	46.56	53.19	72.79
Other Current Assets	81.89	93.57	80.55	85.43	97.01	202.30	199.46	281.80	612.95	146.76	122.02	130.95
Total Current Assets	337.13	332.27	414.89	487.74	590.79	579.23	706.31	1,093.90	1,351.03	1,408.97	1,533.07	1,343.35
Adjusted Total Current Assets	337.13	332.27	414.89	487.74	590.79	579.23	706.31	1,093.90	1,351.03	1,408.97	1,533.07	1,343.35
Non-Current Assets												
LT Investments & LT Receivables	9.57	2.54	9.42	7.93	10.91	10.95	30.55	13.98	11.71	7.70	29.47	29.32
Net Fixed Assets	706.98	976.28	1,024.10	1,011.64	978.97	1,252.27	1,876.03	2,351.61	3,093.37	4,196.56	4,948.43	5,927.98
Adjusted Net Fixed assets	4,746.88	2,789.38	2,293.98	2,318.33	2,569.81	3,339.39	4,168.95	4,539.14	4,884.27	5,035.87	7,283.64	8,832.69
Other Long-Term Assets	103.30	110.05	133.42	124.65	248.56	303.34	315.90	442.26	448.76	158.75	274.93	348.00
Total Long-Term Assets	819.85	1,088.87	1,166.94	1,144.21	1,238.44	1,566.56	2,222.48	2,807.84	3,553.83	4,363.00	5,252.83	6,305.31
Adjusted Total Non-Current Assets	4,859.75	2,901.96	2,436.82	2,450.91	2,829.27	3,653.67	4,515.40	4,995.38	5,344.73	5,202.31	7,588.04	9,210.02
Total Assets	1,156.98	1,421.14	1,581.83	1,631.95	1,829.23	2,145.78	2,928.79	3,901.74	4,904.86	5,771.97	6,785.90	7,648.66
Adjusted Total Assets	5,196.88	3,234.23	2,851.71	2,938.65	3,420.06	4,232.90	5,221.71	6,089.28	6,695.76	6,611.28	9,121.11	10,553.37

Liabilities												
Current Liabilities												
Accounts Payable	113.89	141.26	157.93	172.85	224.06	236.21	260.95	322.90	361.62	377.44	645.57	645.09
Short-Term Borrowings	51.46	82.44	76.46	79.38	85.82	110.46	153.92	176.94	221.65	387.45	542.62	582.26
Adjusted Short Term Borrowings	2,149.34	1,025.41	666.74	793.59	1,286.21	1,649.94	2,057.87	1,873.14	1,361.68	842.35	1,969.73	2,257.48
Other Short-Term Liabilities	165.75	194.26	223.75	255.25	272.05	337.75	461.42	622.77	795.75	758.45	955.82	1,094.74
Total Current Liabilities	331.11	417.96	458.15	507.48	581.93	684.42	876.28	1,122.61	1,379.03	1,523.34	2,144.02	2,322.08
Adjusted Total Non-Current Assets	2,428.98	1,360.93	1,048.43	1,221.69	1,782.31	2,223.90	2,780.24	2,818.81	2,519.05	1,978.23	3,571.12	3,997.30
Non-Current Liabilities												
Long-Term Borrowings	391.41	583.80	611.34	560.85	317.23	521.97	1,031.08	1,228.65	1,654.95	2,694.81	2,562.35	3,109.14
Ajusted Long Term Borrowings	2,628.06	1,667.99	1,369.40	1,285.28	832.74	1,391.93	2,291.29	2,371.58	2,613.07	3,233.77	3,771.55	4,632.61
Other Long-Term Liabilities	145.60	131.44	200.27	206.19	491.82	433.31	390.79	557.25	747.19	447.90	779.47	760.07
Total Long-Term Liabilities	537.01	715.24	811.60	767.04	809.05	955.28	1,421.88	1,785.90	2,402.14	3,142.71	3,341.82	3,869.21
Adjusted Total Non-Current Assets	2,773.66	1,799.43	1,569.66	1,491.47	1,324.55	1,825.24	2,682.09	2,928.83	3,360.26	3,681.67	4,551.02	5,392.68
Total Liabilities	868.12	1,133.20	1,269.75	1,274.52	1,390.97	1,639.70	2,298.16	2,908.50	3,781.16	4,666.05	5,485.84	6,191.29
Adjusted Liabilities	5,202.65	3,160.36	2,618.09	2,713.16	3,106.86	4,049.14	5,462.32	5,747.64	5,879.32	5,659.90	8,122.14	9,389.98
Shareholders' Equity												
Minority Interest	0.60	2.18	3.92	4.12	3.70	3.37	4.31	5.19	5.72	7.10	3.25	12.05
Share Capital & APIC	134.26	133.01	134.00	134.59	134.30	134.30	134.30	453.44	453.44	453.44	453.44	473.91
Retained Earnings & Other Equity	154.00	152.75	174.16	218.72	300.25	368.41	492.02	534.61	664.53	645.38	843.37	971.42
Adjusted Retained Earnings & other Equity	-140.62	-61.32	95.71	86.78	175.20	46.08	-379.23	-116.99	357.28	490.84	542.28	677.43
Total Equity	288.86	287.94	312.08	357.43	438.26	506.09	630.63	993.24	1,123.70	1,105.93	1,300.06	1,457.37
Adjusted Equity	-5.76	73.87	233.62	225.49	313.20	183.76	-240.61	341.65	816.44	951.38	998.97	1,163.39
Total Liabilities & Equity	1,156.98	1,421.14	1,581.83	1,631.95	1,829.23	2,145.78	2,928.79	3,901.74	4,904.86	5,771.97	6,785.90	7,648.66
Adjusted Total Liabilities & Equity	5,196.88	3,234.23	2,851.71	2,938.65	3,420.06	4,232.90	5,221.71	6,089.28	6,695.76	6,611.28	9,121.11	10,553.37

Simulation V Income Statement

LAN Income Statement	2000 MUS\$	2001 MUS\$	2002 MUS\$	2003 MUS\$	2004 MUS\$	2005 MUS\$	2006 MUS\$	2007 MUS\$	2008 MUS\$	2009 MUS\$	2010 MUS\$	2011 MUS\$
Revenue												
Passengers	750.68	803.01	803.72	918.37	1,169.05	1,460.58	1,813.37	2,197.20	2,858.94	2,623.61	3,109.80	4,008.91
Cargo	593.52	539.49	520.79	602.04	799.66	910.45	1,072.73	1,154.32	1,527.11	895.55	1,280.71	1,576.53
Total	1,344.20	1,342.50	1,324.51	1,520.41	1,968.71	2,371.04	2,886.10	3,351.52	4,386.04	3,519.16	4,390.50	5,585.44
Cost of Revenue	953.49	971.38	949.70	1,051.67	1,324.76	1,566.61	1,811.07	2,160.45	2,858.77	2,522.78	3,012.70	4,078.60
Adjusted Cost of Revenues	1,072.41	1,117.82	1,109.49	1,190.80	1,457.19	1,714.81	1,928.27	2,319.37	2,929.30	2,606.49	3,111.29	4,252.80
Gross Profit	390.70	371.12	374.81	468.74	643.95	804.43	1,075.04	1,191.07	1,527.28	996.38	1,377.80	1,506.84
Adjusted Gross Profit	509.62	517.55	534.60	607.88	776.37	952.63	1,192.24	1,349.99	1,597.80	1,080.10	1,476.39	1,681.04
Other Operating Revenue	80.96	85.84	127.93	118.39	124.24	135.32	147.86	173.40	148.24	154.53	138.26	132.80
Operating Expenses	396.38	406.71	440.67	475.42	596.09	798.11	923.59	954.10	1,142.35	697.04	887.78	1,133.00
Adjusted Operating Expenses	668.98	501.05	523.66	551.05	706.98	921.39	1,071.25	1,087.86	1,243.61	750.41	1,042.15	1,322.45
Operating Income	75.28	50.25	62.06	111.72	172.10	141.64	299.30	410.38	533.17	453.88	628.29	506.65
Adjusted Operating Income	-78.41	102.34	138.87	175.22	193.63	166.56	268.85	435.53	502.43	484.22	572.50	491.39
Interest Expense	31.67	36.75	42.56	39.35	36.52	39.19	60.74	76.22	82.69	118.23	123.29	109.71
Adjusted Interest Expense	235.30	345.03	215.01	258.77	163.50	449.32	1,071.52	879.42	364.94	282.02	297.12	397.67
Foreign Exchange Losses (Gains)	-5.67	3.89	4.84	-12.06	-2.36	-6.00	-5.54	-15.70	7.87	11.24	-13.79	0.26
Net Non-Operating Losses (Gains)	-10.04	-3.39	-26.03	-18.68	-56.87	-64.66	-42.79	-17.96	40.99	46.89	16.77	14.33
Pretax Income	59.32	12.99	40.70	103.10	194.80	173.11	286.89	367.81	401.62	277.52	502.03	382.36
Adjusted Pretax Income	-298.00	-243.19	-54.95	-52.81	89.35	-212.10	-754.34	-410.23	88.64	144.07	272.40	79.14
Income Tax Expense	10.41	-0.55	7.32	15.85	28.29	28.26	46.84	59.78	64.69	44.49	81.11	61.79
Net Income	48.91	13.55	33.38	87.25	166.51	144.85	240.06	308.03	336.93	233.03	420.93	320.57
Income Tax Expense	-52.29	-42.67	-9.88	-8.12	12.98	-34.62	-123.15	-66.67	14.28	23.09	44.01	12.79
Adjusted Net Income	-245.72	-200.52	-45.07	-44.69	76.38	-177.48	-631.19	-343.56	74.36	120.97	228.39	66.35

Appendix 17

Simulation VI Balance Sheet

TAM Balance Sheet	2004 MUS\$	2005 MUS\$	2006 MUS\$	2007 MUS\$	2008 MUS\$	2009 MUS\$	2010 MUS\$	2011 MUS\$
Assets								
Current Assets								
Cash & Near Cash Items	32.35	39.79	57.34	75.81	290.25	617.21	609.77	348.89
Short-Term Investments	79.42	386.43	1,091.22	1,389.55	536.73	580.38	848.01	904.27
Accounts & Notes Receivable	204.30	326.77	365.68	527.22	500.00	644.08	937.82	976.23
Inventories	35.43	44.77	53.32	91.33	73.20	111.99	119.73	114.10
Other Current Assets	75.19	136.61	241.09	743.32	185.82	223.97	198.73	391.00
Total Current Assets	426.69	934.37	1,808.64	2,827.23	1,586.00	2,177.62	2,714.07	2,734.50
Adjusted Total Current Assets	426.69	934.37	1,808.64	2,827.23	1,586.00	2,177.62	2,714.07	2,734.50
Non-Current Assets								
LT Investments & LT Receivables	47.41	50.84	0.03	369.16	0.00	0.00	30.29	74.07
Net Fixed Assets	269.31	329.10	370.69	444.01	4,175.18	4,669.36	5,248.10	5,000.78
Adjusted Net Fixed assets	5,096.17	5,157.57	5,832.97	7,060.96	7,920.56	9,338.72	9,664.19	9,046.35
Other Long-Term Assets	82.11	103.29	240.61	37.49	482.48	581.31	740.87	769.65
Total Non-Current Assets	398.83	483.23	611.33	850.66	4,657.66	5,250.67	6,019.26	5,844.49
Adjusted Total Non-Current Assets	5,225.69	5,311.70	6,073.61	7,467.62	8,403.04	9,920.03	10,435.34	9,890.07
Total Assets	825.52	1,417.60	2,419.98	3,677.89	6,243.65	7,428.29	8,733.33	8,578.99
Adjusted Total Assets	5,652.38	6,246.08	7,882.26	10,294.85	9,989.03	12,097.65	13,149.41	12,624.56
Liabilities								
Current Liabilities								
Accounts Payable	99.48	120.77	162.39	239.94	210.02	247.41	314.68	346.53
Short-Term Borrowings	74.61	88.46	164.63	554.37	393.24	714.51	947.04	1,072.29
Ajusted Short Term Borrowings	858.70	1,858.17	2,999.39	3,748.64	1,131.41	1,804.32	2,945.79	1,998.37
Other Short-Term Liabilities	229.13	387.27	623.15	752.61	1,227.75	1,595.29	1,746.42	1,396.69
Total Current Liabilities	403.22	596.50	950.18	1,546.93	1,831.01	2,557.21	3,008.15	2,815.50
Adjusted Total Current Liabilities	1,187.31	2,366.21	3,784.93	4,741.20	2,569.18	3,647.02	5,006.89	3,741.58
Non-Current Liabilities								
Long-Term Borrowings	108.77	145.73	417.89	434.17	3,101.70	3,401.11	3,486.05	3,846.22
Adjusted Long Term Borrowings	3,785.89	3,831.51	4,333.25	5,245.51	5,884.10	6,802.22	6,419.44	6,957.76
Other Long-Term Liabilities	240.93	349.13	404.32	856.84	737.55	727.12	656.36	777.29
Total Long-Term Liabilities	349.70	494.86	822.21	1,291.00	3,839.25	4,128.23	4,142.42	4,623.51
Adjusted Total Non-Current Liabilities	4,026.82	4,180.64	4,737.57	6,102.35	6,621.65	7,529.35	7,075.80	7,735.05
Total Liabilities	752.92	1,091.36	1,772.39	2,837.93	5,670.26	6,685.45	7,150.56	7,439.01
Adjusted Total Liabilities	5,214.13	6,546.85	8,522.51	10,843.54	9,190.83	11,176.36	12,082.69	11,476.64
Shareholders' Equity								
Minority Interest	3.70	3.37	4.31	5.19	5.72	7.10	3.25	12.05
Share Capital & APIC	134.30	134.30	134.30	453.44	453.44	453.44	453.44	473.91
Retained Earnings & Other Equity	300.25	368.41	492.02	534.61	664.53	645.38	843.37	971.42
Adjusted Retained Earnings & Other Equity	300.25	-438.44	-778.87	-1,007.33	339.04	460.75	610.03	661.97
Total Equity	438.26	506.09	630.63	993.24	1,123.70	1,105.93	1,300.06	1,457.37
Adjusted Total Equity	438.26	-300.77	-640.25	-548.70	798.21	921.29	1,066.72	1,147.92
Total Liabilities & Equity	1,191.17	1,597.45	2,403.02	3,831.17	6,793.95	7,791.37	8,450.62	8,896.38
Adjusted Total Liabilities & Equity	5,652.38	6,246.08	7,882.26	10,294.85	9,989.03	12,097.65	13,149.41	12,624.56

Simulation VI Income Statement

LAN Income Statement	2004 MUS\$	2005 MUS\$	2006 MUS\$	2007 MUS\$	2008 MUS\$	2009 MUS\$	2010 MUS\$	2011 MUS\$
Revenue								
Passengers	1,440.21	2,156.81	3,081.09	3,593.27	4,987.62	4,133.99	5,208.10	5,996.63
Cargo	108.38	168.02	223.74	400.84	560.14	474.77	632.96	704.99
Total	1,548.59	2,324.84	3,304.83	3,994.11	5,547.76	4,608.75	5,841.06	6,701.61
Cost of Revenue	1,032.05	1,566.93	2,175.67	3,023.23	4,316.14	3,661.56	4,658.93	5,625.32
Ajusted Cost of Revenues	1,032.05	1,566.93	2,464.03	3,394.24	4,562.27	3,940.35	4,926.86	5,894.99
Gross Profit	516.54	757.91	1,129.17	970.88	1,231.63	947.20	1,182.13	1,076.29
	516.54	757.91	1,417.53	1,341.88	1,477.76	1,225.99	1,450.06	1,345.96
Other Operating Revenue	0.00	6.34	73.02	211.93	288.03	343.09	631.81	1,083.84
Operating Expenses	420.58	600.78	801.89	1,070.70	1,209.38	1,183.86	1,258.15	1,574.74
Ajusted Operating Expenses	996.01	1125.71	1492.15	1969.23	1438.81	1489.32	1593.11	1928.75
Operating Income	95.96	163.47	400.29	112.11	310.27	106.42	555.78	585.39
Adjusted Operating Income	-479.47	-361.46	-1.61	-415.42	326.97	79.76	488.75	501.05
Interest Expense	19.64	36.97	137.66	118.88	297.41	232.86	270.51	288.71
Ajusted Interest Expense	389.31	786.89	1,683.28	1,636.93	783.59	486.89	529.59	596.51
Foreign Exchange Losses (Gains)	-2.38	-10.33	-5.03	45.46	698.36	-872.95	-138.31	539.78
Net Non-Operating Losses (Gains)	-91.79	14.88	-124.87	-140.47	462.45	-215.91	-211.25	-82.53
Pretax Income	170.49	121.95	392.53	88.23	-1,147.95	962.43	634.84	-160.56
Adjusted Pretax Income	-774.61	-1,152.90	-1,555.00	-1,957.34	-1,617.43	681.73	308.72	-552.70
Income Tax Expense	53.43	44.77	136.38	21.72	-352.07	329.36	254.31	-33.86
Net Income	117.06	77.18	256.15	66.51	-795.88	633.06	380.53	-126.70
Adjusted Income Tax Expense	-242.76	-423.23	-540.26	-481.91	-496.05	233.31	123.67	-116.55
Adjusted Net Income	-531.85	-729.67	-1,014.73	-1,475.43	-1,121.37	448.43	185.05	-436.15

Appendix 18

	Simulation V : LAN without Operating Lease											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Profitability												
EBIT	75.28	50.25	62.06	111.72	172.10	141.64	299.30	410.38	533.17	453.88	628.29	506.65
EBIT Margin	5.6%	3.7%	4.7%	7.3%	8.7%	6.0%	10.4%	12.2%	12.2%	12.9%	14.3%	9.1%
Adjusted EBIT	-78.41	102.34	138.87	175.22	193.63	166.56	268.85	435.53	502.43	484.22	572.50	491.39
Adjusted EBIT Margin	-5.83%	7.62%	10.48%	11.52%	9.84%	7.02%	9.32%	12.99%	11.46%	13.76%	13.04%	8.80%
EBITDA	122.98	101.05	128.99	170.27	240.34	215.61	420.11	554.17	708.07	720.74	955.43	893.30
EBITDA Margin	9.15%	7.53%	9.74%	11.20%	12.21%	9.09%	14.56%	16.53%	16.14%	20.48%	21.76%	15.99%
Adjusted EBITDA	241.90	247.49	288.78	309.41	372.77	363.81	537.32	713.09	778.60	804.45	1,054.02	1,067.49
Adjusted EBITDA Margin	18.00%	18.44%	21.80%	20.35%	18.93%	15.34%	18.62%	21.28%	17.75%	22.86%	24.01%	19.11%
ROA	4.23%	0.95%	2.11%	5.35%	9.10%	6.75%	8.20%	7.89%	6.87%	4.04%	6.20%	4.19%
Adjusted ROA	-4.73%	-6.20%	-1.58%	-1.52%	2.23%	-4.19%	-12.09%	-5.64%	1.11%	1.83%	2.50%	0.63%
ROE	16.93%	4.70%	10.70%	24.41%	37.99%	28.62%	38.07%	31.01%	29.98%	21.07%	32.38%	22.00%
Adjusted ROE	4262.47%	-271.46%	-19.29%	-19.82%	24.39%	-96.58%	262.33%	-100.56%	9.11%	12.72%	22.86%	5.70%
Leverage												
D/E	153.32%	231.38%	220.40%	179.12%	91.97%	124.97%	187.91%	141.52%	167.00%	278.70%	238.83%	253.29%
Adjusted D/E	82873.59%	3646.26%	871.55%	921.95%	676.55%	1655.34%	-1807.54%	1242.43%	486.84%	428.44%	574.72%	592.24%
Debt Ratio	75.03%	79.74%	80.27%	78.10%	76.04%	76.41%	78.47%	74.54%	77.09%	80.84%	80.84%	80.95%
Adjusted Debt Ratio	100.11%	97.72%	91.81%	92.33%	90.84%	95.66%	104.61%	94.39%	87.81%	85.61%	89.05%	88.98%
Interest Ratio	237.70%	136.74%	145.82%	283.91%	471.26%	361.40%	492.77%	538.38%	644.78%	383.89%	509.63%	461.81%
Adjusted Interest Ratio	-33.32%	29.66%	64.59%	67.71%	118.43%	37.07%	25.09%	49.52%	137.68%	171.70%	192.68%	123.57%

Appendix 19

	Simulation VI : TAM without Operating Lease							
	2004	2005	2006	2007	2008	2009	2010	2011
Profitability								
EBIT	95.96	163.47	400.29	112.11	310.27	106.42	555.78	585.39
EBIT Margin	6.2%	7.0%	12.1%	2.8%	5.6%	2.3%	9.5%	8.7%
Adjusted EBIT	-479.47	-361.46	-1.61	-415.42	326.97	79.76	488.75	501.05
Adjusted EBIT Margin	-30.96%	-15.55%	-0.05%	-10.40%	5.89%	1.73%	8.37%	7.48%
EBITDA	128.07	199.25	447.14	172.40	566.02	411.88	953.85	1,022.98
EBITDA Margin	8.27%	8.57%	13.53%	4.32%	10.20%	8.94%	16.33%	15.26%
Adjusted EBITDA	128.07	199.25	735.50	543.41	812.16	690.67	1,221.78	1,292.65
Adjusted EBITDA Margin	8.27%	8.57%	22.26%	13.61%	14.64%	14.99%	20.92%	19.29%
ROA	14.18%	5.44%	10.58%	1.81%	-12.75%	8.52%	4.36%	-1.48%
Adjusted ROA	-9.41%	-11.68%	-12.87%	-14.33%	-11.23%	3.71%	1.41%	-3.45%
ROE	26.71%	15.25%	40.62%	6.70%	-70.83%	57.24%	29.27%	-8.69%
Adjusted ROE	-121.36%	242.60%	158.49%	268.90%	-140.49%	48.67%	17.35%	-37.99%
Leverage								
D/E	41.84%	46.28%	92.37%	99.53%	311.02%	372.14%	340.99%	337.49%
Adjusted D/E	1059.79%	1891.71%	1145.28%	1639.18%	878.91%	934.18%	877.94%	780.20%
Debt Ratio	91.21%	76.99%	73.24%	77.16%	90.82%	90.00%	81.88%	86.71%
Adjusted Debt Ratio	92.25%	104.82%	108.12%	105.33%	92.01%	92.38%	91.89%	90.91%
Interest Ratio	488.49%	442.20%	290.78%	94.30%	104.32%	45.70%	205.46%	202.76%
Adjusted Interest Ratio	-123.16%	-45.93%	-0.10%	-25.38%	41.73%	16.38%	92.29%	84.00%

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